A8 DIGITAL MUSIC HOLDINGS LIMITED
A8 電媒音樂控股有限公司

(Incorporated in the Cayman Islands with limited liability)

（於開曼群島註冊成立之有限公司）

Stock Code 股份代號: 00800

Annual Report 2013 年報

CONTENTS

Corporate Information

EXECUTIVE DIRECTORS
Mr. Liu Xiaosong
Mr. Lu Bin

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Chan Yiu Kwong
Ms. Wu Shihong
Mr. Song Ke

AUDIT COMMITTEE
Mr. Chan Yiu Kwong *(Chairman)*
Ms. Wu Shihong
Mr. Song Ke

NOMINATION COMMITTEE
Mr. Liu Xiaosong *(Chairman)*
Ms. Wu Shihong
Mr. Song Ke

REMUNERATION COMMITTEE
Ms. Wu Shihong *(Chairman)*
Mr. Liu Xiaosong
Mr. Song Ke

AUTHORISED REPRESENTATIVES
Mr. Liu Xiaosong
Ms. Gao Keying

JOINT COMPANY SECRETARIES
Ms. Ho Yip, Betty
Ms. Gao Keying

AUDITORS
Ernst & Young

PRINCIPAL BANKERS
China Merchants Bank
Standard Chartered Bank (Hong Kong) Limited
Credit Suisse, Hong Kong Branch

REGISTERED OFFICE
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Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE
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No. 1002 Keyuan Road
Hi-tech Park
Nanshan District
Shenzhen
Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Suites 06-12, 33/F.
Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

WEBSITE
www.a8.com

STOCK CODE
00800

CONSOLIDATED RESULTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**189,736**	345,093	483,587	681,839	707,148
Profit/(loss) before tax	**21,220**	(26,684)	18,156	47,433	118,592
Income tax expense	**(12,747)**	(3,328)	(5,241)	(5,115)	(16,423)
Profit/(loss) for the year	**8,473**	(30,012)	12,915	42,318	102,169
Attributable to:					
Owners of the Company	**9,820**	(29,868)	12,687	41,765	102,008
Non-controlling interests	**(1,347)**	(144)	228	553	161
	8,473	(30,012)	12,915	42,318	102,169

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As of 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**935,353**	709,839	668,352	641,032	602,121
Total liabilities	**(149,467)**	(194,573)	(127,574)	(119,514)	(119,343)
Non-controlling interests	**1,241**	(106)	–	(826)	(811)
	787,127	515,160	540,778	520,692	481,967

The consolidated results of A8 Digital Music Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2013 and the consolidated assets, liabilities and equity of the Group as at 31 December 2013 are those set out in the audited financial statements.

Liu Xiaosong
Chairman

Business Review in 2013

Mobile Internet market grows rapidly in 2013 in China. The whole industry presented a robust development momentum. With the rising penetration rate of smartphones, the improving network environment and the declining expense in data streaming, the mobile Internet user's scale reached 570 million, which is almost the same scale as the PC internet users. Mobile phones have been becoming the prominent internet entrance, triggering the growth of the applications primarily with entertainment services, in which music and games continuously become popular on smartphones in a fast pace.

The breakdown of the revenue generated from mobile internet business shows as following:

1) The business in traditional mobile value-added service continued to shrink, with its share of the mobile internet market dropping to 32.5% in 2013 from 49.8% in 2012;

2) In 2013, besides the mobile e-commerce, mobile games was the highest growth segment among all others in mobile Internet. Based upon the data survey in the game industry conducted by Games Engineering Professional Committee under China Audio-video and Digital Publishing Association, mobile games entered a fast growth period in 2013-the number of mobile game users and revenue scale recorded a year-on-year growth of 248.5% and 246.9% respectively, reaching 310 million users and RMB11.24 billion in 2013.

The development of mobile Internet boosted the intensified competition in mobile music business, which is recognized as an important attraction power of mobile Internet traffic. According to the data from iiMedia Research, the number of users for music application reached 290 million, representing a 6.6% growth. Meanwhile, the emerging revenue models of music application, such as fixed rate subscription of data usage in music streaming, differentiated services for prime members and online advertisements, gradually come to test and mature. In turn, the accelerated progress of licensed music leads to competition of content becoming the core of the business.

As stated in the 2012 Annual Report and 2013 Interim Report, the Group disposed of some traditional wireless value-added business which barely create value for users or satisfy user experience and would be replaced in the future as anticipated since the end of 2012. Instead, the Group has been shifting our strategic to the field of digital music and mobile Internet. Through two-year exploration, in 2012 and 2013, the Group positioned itself to build up a new digital entertainment group including music-based entertainment platform and the prime game publishing platform, in which the products and operations would be the core supported by content production, channel cooperation, market promotion and monetization.

The music industry chain

In 2013, the Group continued to strengthen and consolidate the music business from contents, channels and products, and speeded up the building of music platform.

In music contents, the Group continued to make efforts in UGC music contents, composers program and accumulation of copyrights. For the purpose of providing more valuable services for composers, the Group completed the restructure of A8.com, which was remodeled as a users-content-generation platform by helping musicians complete a chain of work starting from content creation, digital music publishing then to marketing and promotion. At the same time, in 2013, the Group rehearsed the "Eighth Original China Internet Music Contest", as well as other programs to collect user-generated music by working with Coca-cola, Zhejiang Satellite TV and other parties. Furthermore, the Group obtained the "Internet Publishing License" ("互聯網出版許可證"), which will have positive effects to our digital music business.

In music channels, the Group actively collaborated with carriers and mobile Internet channels to activate ringtone users, and boost revenue from wireless music.

In music products, the Group actively explored mobile music applications, strengthened the combination of UGC and the applications and explore business model and profit model.

In 2013, Duomi Music Holding Limited ("Duomi Music") invested by the Group posted a strong growth and made certain progress in exploring business models and monetization. First, with the launch of Duomi Music version 5.0 embedded with social network in the beginning of the year, Duomi Music enjoyed the improvement of community function by creating convenience for users to find good music and good friends. And Duomi Music's unique function of "Playlist" attracted lots of musicians as registered users. As a result, Duomi Music was highly appraised by users. Currently, the accumulated number of users of Duomi Music exceeded 200 million, and the average listening hours in active users reached around 7 days a month. In December 2013, at the Fourth China Mobile Phone Application Developer Conference organised by iiMedia Research Group, Duomi Music was awarded the "Best Entertainment Application Award" of the "2nd China Mobile Internet Fist Prize".

Additionally, Duomi Music extended and strengthened the external cooperation with mainstream mobile phone manufacturers, including Lenovo, Huawei, ZTE, Coolpad and Meizu, as well as continuing strategic cooperation with Sony Mobile and BesTV. Duomi Music has been endorsed by more excellent enterprises in various industries as a professional music service provider.

In the end, Duomi Music expedited its monetization by feasible business model and achieved remarkable progress. The fixed rate of music data traffic program with China Unicom subscribers has made sound effect and was still in upward trend either in number of subscriptions or in revenue. In addition, Duomi Music is also exploring mobile advertisement model with the mainstream of brand advertisement shifted from the single effect advertisement, compounded with rapid increase in advertisement revenue.

Mobile Internet

In 2013, in light of the rapid growth of the mobile game market, combined with our historical operational experiences and access to billing resources, the Group commenced to be the agency of publishing mobile games. The Group carried out the mobile game publishing business through a new brand of Gaming between Fingers (「指遊方寸」) and subsequently published the Android version of two Internet games PaPa Three Kingdoms (「啪啪三國」) and One Up on War (「一將成名」) and four single-player games. Of which, "PaPa Three Kingdoms" is an excellent game product. With the efforts of the game team, this product was successfully ranked in Top Ten for 360 Android Mobile Internet Games Revenue Billboard on 7 November 2013 in its first debut month, and went up to No. 7 in December 2013.

Backed with the rapid development of mobile Internet and the active transformation of mobile carriers, combined with our advantages in channels and integrated access to the billing capabilities of traditional carriers, the Group collaborated with mobile Internet APPs by offering promotion, operation and billing services. Meanwhile, the Group continued the service contract with China Mobile MM (Mobile Market) base, by which we strengthened the strategic cooperation with mobile carriers in the area of mobile Internet products and channels, and accumulated operational experiences and resources in various digital products through providing operational support services. In return, the contract with MM recorded remarkable increase compared with last year.

Business Outlook for 2014

Looking into 2014, the mission of the Group is to build a music-based entertainment platform and prime game publishing platform, ensuring the healthy and sustainable business models for monetization.

Music-based entertainment industry chain based on mobile internet

With the development of licensed music, music contents and copyright operation has become an important base for building music and entertainment platform. The Group will continue to accumulate music contents through existing and innovative approaches, including the development of A8.com platform and model innovation; in the meantime, the Group will jointly launch and set up music culture industry fund with Beijing Culture Creative Industry Fund, and focus more on contents, production and copyrights operation in an effort to "attract more external resources working for the Group".

At the same time, the Group will continue to sustain the operations in traditional business and strengthen the cooperation with carriers and other partners.

A8 Building had completed the construction and commercialized by the end of 2013, and The National Music Industry Base was also launched. The Group will build the Live House theatre and content incubator in A8 Building.

Duomi Music will differentiate itself by tuning up products, users and business models in 2014. Regarding products, Duomi Music will continue the position of social network by enhancing interaction, accumulating more social connections and offering more diversified entertainment services with the focus to meet the needs of target users. Regarding users, Duomi Music will shift its focus to the number of active users from the number of new users, and enhance users' interaction and loyalty. In exploring the business models, Duomi Music will extend the fixed rate of music data streaming program to the other carries with the exception of China Unicom, by which pave a way to set up hierarchy service to users and make a breakthrough in user fee model. Regarding business users, Duomi Music will explore more new forms of advertisements with focus on brand advertisements. In addition, capitalizing on the huge traffic of Duomi Music, and combining with the Group's capabilities in games operation, the Group will cooperate in exploring new revenue model.

Regarding music products, in order to enhance its competitive edge, the Group will centralize resources to focus on the development of content operation and strengthen the close cooperation with Duomi Music.

Prime games publishing platform

Based on the breakthrough made in mobile games business in 2013, the Group will expedite to strengthen mobile games publishing business and build the Gaming between fingers (「指遊方寸」) as a game publishing platform in 2014. Meanwhile, through investment in Qingsong Fund, the Group will have more chance to find and explore more quality games for publishing.

In 2014, the Group will launch 4-5 mobile Internet games with high quality and currently two have been chosen, including the King of Gods (「眾神之王」). The Group will integrate work closely with game developers in the early stage of game design, with the core goal of meeting players' needs. We hope to gain a stronger foothold in the competition through the lean operation and multidimensional marketing and promotion, so as to achieve a place in the Top Ten of the mobile games publishing business. In the meantime, in the field of mobile games, although we position ourselves as a mobile games publisher, the Group will look for mergers and acquisition opportunities in upstream game developer and in downstream channels by which we may enhance sustainable competitive strength.

Regarding the MM project with China Mobile, the Group will strive to expand more new valuable projects. Combined with the advantages accumulated by the Group in channels, we will further integrate the billing capabilities to provide service to mobile Internet APP, particularly games products.

A8 Music has gradually built up its competitive advantages on digital music and mobile game market. The Group will focus on providing value to users, and take this as our philosophy to support the rapid and sustainable development in the future and build a leading new media group in China. The Board and the management will work more closely with all staffs for the sustainable development of the Group.

Business Review

Revenue and profit attributable to owners of the Company

For the year ended 31 December 2013, the revenue of the Group amounted to approximately RMB189.7 million, representing a decrease of 45.0% as compared with 2012 (2012: approximately RMB345.1 million).

The decline in revenue was mainly due to the downtrend of our disposal of some such business that is to be replaced in the future as we anticipated. As of 2013, we positioned the Group to the business of prime game publishing platform and Music-based entertainment platform and achieved progress. However, the revenue in new business still need time to cover the negative impact of downtrend of the given-up business. In 2013, the Group started to enter into prime game publishing business, and completed the restructure of resources as needed in the new business which started to generate significant revenue from October. The Prime Game Platform business will become one of main business lines in 2014.

For the year ended 31 December 2013, the profit attributable to the owners of the Company amounted to approximately RMB9.8 million, which included fair value gain on investment properties under construction, share of losses of associates and impairment of an intangible asset of approximately RMB90.2 million, RMB32.0 million and RMB12.9 million, respectively, as compared with a loss of approximately RMB29.9 million in 2012.

In addition, the research and development cost of wireless music application, in-house development (including the technical-side development of jing.fm) and home entertainment streaming devices also have a negative impact on the Group's profit. The Group considered that they are relatively remote from business model and monetisation, and prudently abandoned the development in 2014. Instead, considering the prime status of Duomi Music in the mobile Internet music industry and the trend in cooperation in the current mobile internet industry, the Group shifted to the intrinsic cooperation with Duomi Music, so as to jointly build the music entertainment platform.

Cost of services provided

For the year ended 31 December 2013, cost of services provided by the Group amounted to approximately RMB125.3 million, representing a decrease of approximately 43.8% as compared with 2012 (2012: approximately RMB223.1 million).

The cost of services provided mainly comprises revenue share with mobile operators and business alliances, and other costs such as music and online game copyrights and direct labor costs.

Revenue share with mobile operators was charged from 15% to 70% of the total revenue received from mobile users and it averaged at approximately 41.1% of the total revenue for the year ended 31 December 2013, representing a slight increase of 1.2% as compared with 2012 (2012: approximately 39.9%).

Revenue share with business alliances averaged at approximately 17.7% of the total revenue for the year ended 31 December 2013, remaining almost the same level as 2012 (2012: approximately 18.1%).

Gross profit

For the year ended 31 December 2013, the gross profit of the Group amounted to approximately RMB62.2 million, representing a decrease of approximately 46.5% as compared with 2012 (2012: approximately RMB116.3 million). The overall gross profit margin of the Group decreased from 33.7% in 2012 to 32.8% in 2013. The decrease was mainly due to product mix which resulted in higher revenue share with mobile operators.

Other income and gains, net

For the year ended 31 December 2013, the other income and gains of the Group were approximately RMB111.4 million, as compared to net gain of approximately RMB19.8 million in 2012.

The sharp increase was mainly due to the increase of fair value gains on investment properties under construction and imputed interest income for redemption right of preferred shares amounted to approximately RMB90.2 million and RMB4.5 million, respectively, which was partly offset by the decrease of government grant released and fair value gain on conversion option of approximately RMB2.6 million and RMB1.2 million, respectively.

Selling and marketing expenses

For the year ended 31 December 2013, the selling and marketing expenses of the Group amounted to approximately RMB55.6 million, decreased by 38.3% as compared with 2012, representing 29.3% of total revenue (2012: approximately RMB90.1 million, representing 26.1% of total revenue). The rising proportion of selling expense over total revenue was due to the labor adjustment, such as layoff and new hire incurred with the business reposition.

Administrative expenses

For the year ended 31 December 2013, the administrative expenses of the Group amounted to approximately RMB49.2 million, representing a decrease of approximately 2.4% as compared with 2012 (2012: approximately RMB50.3 million).

The decrease was mainly due to the decrease of share option expense, labor cost and rental expenses which amounted to approximately RMB2.7 million, RMB1.6 million and RMB1.1 million, respectively, which was offset by the increase of other administrative expenses including the corporation cultural training and office relocation of approximately RMB4.2 million.

Other expenses, net

For the year ended 31 December 2013, the other expenses, net of the Group amounted to approximately RMB15.6 million, compared with approximately RMB2.7 million in 2012. The sharp increase was mainly due to the impairment of an intangible asset of Music cloud and exchange losses related to foreign currency amounted to approximately RMB12.9 million and RMB2.5 million, respectively, which was partly offset by the decrease of accounts receivable provision and its reversal amounted to approximately RMB2.6 million in total. In January 2010, the Group outsourced Music cloud system recorded as an intangible asset, which supported the technology framework at that time. However, with the dramatic development of mobile technology in recent years and significant change of mobile business model and competition roadmap in music side in current year, the Group repositioned the music business, which strengthened the co-operation with partners. Considering the out-of-date status of Music cloud system, the Group realised that it was not commercially viable for the Group to update the system and develop the business based on it, thus the impairment of Music cloud was made in time.

Share of losses of associates

For the year ended 31 December 2013, share of losses of associates for the Group amounted to approximately RMB32.0 million as compared with approximately RMB19.5 million in 2012, which mainly represented share of loss of Duomi Music. The Group owned 42.69% shares in Duomi Music. Although the revenue of Duomi Music marched great step, the company was still in the stages of development and investment, which in turn, the revenue rarely compensate the cost and expense incurred by business and customer development. With the change of the goal in Duomi Music from user accumulation to monetisation, plus achievement in Duomi Music monetisation, the Group thought it would be in the next stage, just as the track in internet industry.

Income tax

For the year ended 31 December 2013, the income tax expenses of the Group amounted to approximately RMB12.7 million, while it was approximately RMB3.3 million in 2012.

The effective tax rate of the Group was 60.1% in 2013 (2012: approximately negative of 12.4%). According to the new Corporate Income Tax Law in China, the statutory tax rates were 12.5%, 15%, 25% for the respective operating subsidiaries of the Group for 2013, the same as those in 2012. The tax expenses for the period were mainly due to deferred tax liability related to the appreciation of investment property of approximately RMB13.5 million, which were partly offset by the deferred tax asset related to the deductible temporary differences amounted to approximately RMB1.7 million.

Liquidity and Financial Resources

As at 31 December 2013, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, restricted cash, time deposits with original maturity of more than three months and investments at fair value through profit or loss amounted to approximately RMB475.9 million (2012: approximately RMB387.2 million). Approximately RMB360.1 million, or approximately 76% of the Group's cash and cash equivalents, was denominated in RMB.

As at 31 December 2013, the Group did not have any borrowings or debts. Accordingly, the gearing ratio which is measured by the net borrowings over the total assets is not applicable.

The Group's exposure to changes in interest rates is mainly attributable to its time deposits placed with banks. The Group mainly operates in the PRC with most of the transactions settled in RMB.

As at 31 December 2013, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Non-current Assets

As at 31 December 2013, the total non-current assets of the Group amounted to approximately RMB389.2 million (2012: approximately RMB248.3 million). The increase was mainly due to the increase of investment properties under construction of A8 building amounted to approximately RMB210.8 million which were partly offset by the decrease of debt portion of preferred shares, intangible assets, prepaid land lease payments and prepayment for acquisition of items of property, plant and equipment amounted to approximately RMB26.9 million, RMB22.3 million, RMB12.4 million and RMB7.1 million, respectively.

Current Assets and Current Liabilities

As at 31 December 2013, the total current assets of the Group amounted to approximately RMB546.2 million (2012: approximately RMB461.6 million). The increase was mainly due to the increase of cash and bank and highly liquid short term assets of approximately RMB88.8 million which mainly derived from rights issue completed in March 2013, which was partly offset by the decrease of accounts receivable and prepayment, deposits and other receivable of approximately RMB4.2 million in total. The turnover days of accounts receivable is 99 days (2012: 56 days).

As at 31 December 2013, the total current liabilities of the Group amounted to approximately RMB122.0 million (2012: approximately RMB118.0 million). The increase was mainly due to the increase of current portion of deferred income, other payable and accruals of approximately RMB4.2 million and RMB1.0 million, respectively, which were partly offset by the decrease of accounts payable amounted to approximately RMB1.3 million.

Cash Flow

Net cash outflow from operating activities of the Group for the year ended 31 December 2013 was approximately RMB29.8 million, resulted from cash outflow from operations of approximately RMB28.6 million and tax paid of approximately RMB1.2 million.

Net cash outflow from investing activities of the Group for the year ended 31 December 2013 was approximately RMB85.4 million, resulted from the cash outflow of purchases of property, plant and equipment, increase in restricted cash amounted to approximately RMB74.3million and RMB13.5million, and it was also due to the cash outflow of acquisition of Duomi Music preferred shares and net purchase of investments at fair value through profit or loss amounted to approximately RMB11.3 million and RMB10.1 million respectively, which were partly offset by the interest received and decrease in short term time deposit over three months of approximately RMB15.5 million and RMB8.3 million, respectively.

Net cash inflow from financing activities of the Group for the year ended 31 December 2013 was approximately RMB197.5 million, representing the net proceeds derived from issue of shares under rights issue and new bank loan of approximately RMB273.0 million and RMB13.3 million, respectively, which partly offset by the repayment of interest-bearing bank loan of approximately RMB82.8 million.

Contingent Liabilities

As at 31 December 2013, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2013, the Group employed 209 employees (2012: 251 employees). However, the average headcounts of year 2013 was 230 while it was 260 in year 2012. The Group determines the remuneration of its employees based on various factors such as responsibilities, qualifications and years of experience. Total employee costs for the year ended 31 December 2013, including directors' emoluments, amounted to approximately RMB46.8 million, representing a decrease of approximately 9% as compared with 2012 (2012: approximately RMB51.5 million), which was mainly due to the combine effect of staff streamline, wage growth and severance packages for departing staff during 2013.

Events after the reporting period

On 7 January 2014, the Group subscribed for a Wealth Management Product issued by Ping'an Trust Co., Ltd. at a subscription amount of RMB70 million.

On 24 January 2014, the Group invested RMB20 million to subscribe approximately 6% interest of Qingsong Fund II, which is engaged in investment in the mobile internet and internet industry.

DIRECTORS

Executive Directors

Mr. Liu Xiaosong, aged 48, an executive Director, the Chairman and the Chief Executive Officer of the Company.

Mr. Liu graduated from Hunan University in the PRC in 1984, with a Bachelor's degree in Electrical Engineering. In 1987, Mr. Liu graduated from China Electric Power Research Institute in the PRC with a Master's degree in Engineering. In 1991, he studied at Tsinghua University as a PhD research student. He has diversified experience in the technology, media and telecommunications industry. He is one of the co-founders of Tencent Holdings Limited, a company listed on the Main Board of Stock Exchange with the Stock Code: 00700.HK. In 2004, Mr. Liu was admitted to the Shenzhen Experts Working Union. Mr. Liu was appointed as the Vice President of the Copyright Union of the Internet Society of China and the Copyright Society of China in August 2007 and September 2007 respectively. He is also the Vice President of the Shenzhen Hi-tech Association. He is a founder of the Group and was appointed as a Director on 2 October 2007. Mr. Liu is currently responsible for the overall strategic planning and the whole business operation and management of the Group.

Mr. Liu is a director of Duomi music Holding Ltd., which is an associate of the Company. He also acts as the director of A8 Music Group Limited, Total Plus Limited, Phoenix Success Limited, Cash River information Technology (Shenzhen) Co., Ltd., Shenzhen Huadong Feitian Network Development Co., Ltd, Shenzhen Kuaitonglian Technology Co., Ltd., and Beijing Chuangmeng Yinyue Culture Development Co., Ltd., which are subsidiaries of the Company.

Mr. Liu is the director of Knight Bridge Holdings Limited, Ever Novel Holdings Limited and Prime Century Technology Limited, all of which have interest in the shares of the Company discloseable under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

Mr. Lu Bin, aged 44, an executive Director and the Chief Financial Officer of the Company. Mr. Lu graduated from Tsinghua University in 1992 with a Bachelor's degree in Engineering. In 2000, he obtained a degree of Master of Business Administration in Corporate Finance from The Ohio State University with Fisher Scholar Award. He studied Accounting at The Ohio State University in 2007. Mr. Lu has worked with Anaren, Inc (Nasdaq: ANEN) as Division Chief Financial Officer and Controller, and has worked as Partner for Janney & Lee Investment LLC. He also held various finance management positions at China Network Communication Co., Ltd. (which has been acquired by China Unicom), Dell Inc. (Nasdaq: Dell) and China International Trust and Investment Corporation (currently known as CITIC Group). Mr. Lu has years of experience in strategic planning of corporate finance, finance management, equity investment, etc., and over 10 years' diversified working experience and in-depth understanding in the telecommunication and internet industries. Mr. Lu jointed the Company in February 2011 as Chief Financial Officer and was appointed as an executive director on 19 August 2011. Mr. Lu is also a director of Duomi Music.

Independent Non-executive Directors

Mr. Chan Yiu Kwong, aged 49, is an independent non-executive Director. Mr. Chan graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences in 1988. He was admitted as a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants in 1999 and 2005 respectively. From June 2004 to July 2006, Mr. Chan served as an independent non-executive director of Beijing Enterprises Water Group Limited (formerly known as "Shang Hua Holding Limited"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00371.HK). From March 2001 to December 2007, Mr. Chan served as an executive director of Hi Sun Technology (China) Limited ("Hi Sun"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00818.HK). Between 2005 and 2010, Mr. Chan served as an independent non-executive director of Biosino Bio-Technology and Science Incorporation, a company listed on the Growth Enterprises Market of the Stock Exchange (Stock Code: 08247.HK). Mr. Chan currently serves as a joint company secretary of Hi Sun and a joint company secretary of PAX Global Technology Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00327. HK). He has years of diversified experience in auditing, business advisory and corporate management. He was appointed as an independent non-executive Director on 9 November 2007.

Ms. Wu Shihong, aged 56. Ms. Wu has extensive experience in the information technology industry. She joined IBM China in 1985 and held the position of General Manager for channel management of IBM China from May 1997 to February 1998. She then acted as the General Manager of Microsoft China Co. Ltd. until August 1999. From December 1999 to December 2002, she was a Vice President of TCL Corporation as well as the General Manager of TCL Information Technology Industrial (Group) Co. Limited. She is an independent non-executive director of TCL Multimedia Technology Holdings Limited (Stock Code: 01070.HK) since June 2007. Ms. Wu founded Shanghai Blackspace Info. Tech. Co. Limited in May 2008 and has been the Chairman and Chief Executive Officer since then until February 2012. Ms. Wu was appointed as an independent non-executive Director on 27 March 2012.

Mr. Song Ke, aged 48, is a famous music producer in China. He has nearly twenty years of professional experience in the music industry. Mr. Song graduated from Tsinghua University in 1988 with a Bachelor's degree in environmental engineering, and during the period from 1990 to 1992 studied at Texas A&M University in USA. Mr. Song came back in 1996 and founded the Maitian Music Creation Company. During the period from 2000 to 2012, he served as the Deputy General Manager and Musical Director in Warner Music Company China District, the Deputy General Manager in Taihe Media Investment Co. Ltd. and the Managing Director in Beijing Taihe Rye Music Co., Ltd. From June 2012, Mr. Song acts as Chairman in Henda Music Company. Mr. Song also acts as the Vice President of the Record Working Committee in China Audio & Video Association, and the Vice President of Popular Music Society in China Musicians Association. Mr. Song was appointed as an independent non-executive Director on 30 May 2013.

SENIOR MANAGEMENT OF THE GROUP

Mr. Su Wei, aged 38, the Chief Investment Officer of the Group. He graduated from the Shanghai University of Finance and Economics with a Bachelor's degree in Money and Banking in 1998 and further obtained a Master Business Administration degree from Donghua University in 2006. Mr. Su has years of diversified working experience in corporate internal management, investments, mergers and acquisitions, project financing, reorganization, and has in-depth knowledge in the internet industry. He has worked for Shanghai Pudong Road & Bridge Construction Co., Ltd (Shanghai Stock Exchange: 600284), Shanda Computer (Shanghai) Co., Ltd., etc. Mr. Su joined the Group in March 2010 and he is now responsible for the Group's strategy, investment, operation management and informatization. Mr. Su also acts as the director of Duomi Music.

Mr. Liu Xiaosong and Mr. Lu Bin are also the Senior Management of the Group, please refer to page 11 for their resume.

The board (the "Board") of directors (the "Directors") presents their report and the audited financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2013 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 42 to 114.

No interim dividend was declared for the six months ended 30 June 2013 and the Board does not recommend the payment of final dividend for the year ended 31 December 2013.

FINANCIAL SUMMARY AND HIGHLIGHT

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out on page 3. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2013 are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year ended 31 December 2013 are set out in notes 30 and 31 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders of the Company.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

ISSUE OF SHARES

During the year of 2013, the Company completed a rights issue and issued 952,564,752 new shares with par value of HK$0.01 each at a subscription price of HK$0.36 each per rights share on the basis of two rights shares for every existing share held on the record date (i.e. 27 February 2013). The total amount which the Company raised from the rights issue was approximately HK$342,920,000 (before expenses). Further details of the Company's rights issue are set out in the Company's circular dated 30 January 2013 and prospectus dated 28 February 2013.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year of 2013, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the Share Award Scheme has purchased a total of 16,172,120 shares of the Company on 22 March 2013 at a total consideration of about HK$5.82 million in accordance with the terms of the prospectus relating to the Rights Issue.

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2013 are set out in note 33 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2013, the Group's retained profits and share premium account amounting to approximately RMB237,565,000 and RMB450,770,000, respectively. It provides a total of approximately RMB688,335,000 to be available for distribution.

As at 31 December 2013, the Company's reserves available for distribution amounted to approximately RMB468,668,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, revenues from the five largest customers of the Group accounted for approximately 78% of the Group's total revenues while revenues from the largest customer for the Group accounted for approximately 55% of the Group's total revenues. In addition, for the year ended 31 December 2011, purchases from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

None of the Directors nor any of their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) of the Company had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors: Mr. Liu Xiaosong, Mr. Lu Bin

Independent non-executive Directors: Mr. Chan Yiu Kwong, Mr. Zeng Liqing (resigned on 30 May 2013), Ms. Wu Shihong and Mr. Song Ke (appointed on 30 May 2013)

In accordance with article 87(1) of the Articles, one third of the Directors will retire and, being eligible, for re-election as Directors at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Song Ke. As at the date of this report, the Company still considers these independent non-executive Directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 11 to 12 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract or an appointment letter (as the case may be) with the Company for an initial fixed term of three years commencing from their appointment or re-designation, subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to Articles, and will continue thereafter until terminated by (i) in cases of executive Directors and independent non-executive Directors, not less than three months' notice in writing served by either party on the other or payment in lieu of such notice, or (ii) in case of non-executive Directors, not less than one month's notice in writing by the non-executive Director or the written notice issued by the Company with immediate effect.

Apart from the foregoing, no Director has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings of the Company. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 38 to the financial statements and in the section headed "Connected transactions" in this report, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party subsisting during or at the year ended 31 December 2013.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2013.

Save as disclosed in note 38 to the financial statements and in the section headed "Connected transactions" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

Save as disclosed in note 38 to the financial statements, no contract of significance for the provision of services to the Group by the controlling shareholders of the Company or any of its subsidiaries was entered into.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2013, the Directors and chief executives of the Company and their associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules and the Company's own code of conduct regarding Directors' dealings in the Company's securities ("Own Code"):

Long positions in shares of the Company

		Number of shares		
Name of Director	**Nature of interest**	**Ordinary shares**	**Underlying Shares (under equity derivatives of the Company)**	**Approximate percentage of interest in the Company's issued share capital** *(Note 1)*
Mr. Liu Xiaosong	Founder of trust *(Note 2)*	508,746,810	Nil	35.605%
	Beneficial Owner	5,766,000	597,310 *(Note 3)*	0.445%
Mr. Lu Bin	Beneficial Owner	Nil	3,068,910 *(Note 3)*	0.21%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2013 (i.e. 1,428,847,128 Shares).

2. Mr. Liu Xiaosong is the founder of a family trust which is deemed under SFO to be interested in all the shares held by Ever Novel and Prime Century in the Company. As at 31 December 2013, Prime Century directly held 367,115,715 shares and Ever Novel directly held 141,631,095 shares in the Company.

3. Details of share options held by the Directors are shown in the section of "Share Option Schemes".

Long positions in associated corporations of the Company

Name of associated corporation	Name of Director	Nature of Interest	Registered capital/no. of shares held	Approximate percentage of interest
Huadong Feitian *(Note 1)*	Mr. Liu	Beneficial owner	RMB21,510,000 *(Note 3)*	75%
Duomi Music *(Note 2)*	Mr. Liu	Interest of controlled corporation	35,435,640 *(Note 4)*	30.13%

Notes:

1. Huadong Feitian is a limited liability company incorporated in the PRC whose financial results are, through a number of structure contracts, consolidated into the financial statements of the Company and therefore an associated corporation of the Company.

2. Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at 31 December 2013, the Company was interested in approximately 42.73% (assuming after full conversion of preferred shares and no option has been exercised) of the issued share capital of Duomi Music through its wholly-owned subsidiary, Phoenix Success Limited, and therefore Duomi Music is an associated corporation of the Company. Mr. Liu, through his wholly-owned company, Fortune Light Investments Limited ("Fortune Light"), held approximately 30.13% (assuming after full conversion of preferred shares and no option has been exercised) of the issued share capital of Duomi Music.

3. This represents the amount of registered capital of Huadong Feitian held by Mr. Liu.

4. This represents the number of shares of Duomi Music held by Mr. Liu.

Save as disclosed, as at 31 December 2013, none of the Directors, chief executives and their respective associates had any interest or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to section 352 of the SFO to be entered into the register referred to therein; or are required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SHARE OPTION SCHEMES

On 26 May 2008, the shareholders of the Company adopted two share option schemes for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. Further details of the share option schemes are disclosed in note 31 to the financial statements.

The exercise period of the Company's share options outstanding under the Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") had ended in 21 May 2012, and no further share option will be granted under the Pre-IPO Share Option Scheme. During the year ended 31 December 2013, no share option granted under this Scheme was exercised or cancelled.

The following table discloses movements in the Company's share options outstanding under share option scheme (the "Share Option Scheme") during the year:

Name/category of participants	At 1 January 2013	Exercised during the period	Granted during the period	Lapsed/ forfeited during the period	Adjustment as a result of the Rights Issue*	At 31 December 2013	Date of grant of share options	Vesting period of share options	End of exercise period	Original Exercise price of share options HK$ per share	Adjusted Exercise price of share options HK$ per share
Directors of the Company											
Mr. Liu Xiaosong	455,441	-	-	-	141,869	597,310	5 October 2009	One-third of the share options granted will be vested every 12-month period starting from 5 October 2010	5 October 2014	3.168	2.4156
Mr. Lu Bin	2,340,000	-	-	-	728,910	3,068,910	25 March 2011	One-fourth of the Share Options will be vested every 12-month period starting from 11 May 2012	24 March 2016	2.41	1.8376
	2,795,441	-	-	-	870,779	3,666,220					
Senior Management of the Group	600,000	-	-	-	186,900	786,900	25 March 2011	One-fourth of 600,000 Share Options will be vested every 12-month period starting from 20 September 2011	24 March 2016	2.41	1.8376
	400,000	-	-	-	124,600	524,600	18 August 2011	One-fourth of the Share Options will be vested every 12-month period starting from 9 August 2012	17 August 2016	1.20	0.9150
	1,000,000	-	-	-	311,500	1, 311,500					

Name/category of participants	At 1 January 2013	Exercised during the period	Granted during the period	Lapsed/ forfeited during the period	Adjustment as a result of the Rights Issue*	At 31 December 2013	Date of grant of share options	Vesting period of share options	End of exercise period	Original Exercise price of share options HK$ per share	Adjusted Exercise price of share options HK$ per share
Other employees and eligible persons	2,202,640	–	–	–	686,122	2,888,762	15 October 2008	One-fourth of the Share Options will be vested every 12-month period starting from 15 October 2009	14 October 2018	1.184	0.9028
	459,700	–	–	200,935	142,655	401,420	5 October 2009	One-third of the share options granted will be vested every 12-month period starting from 5 October 2010	5 October 2014	3.168	2.4156
	108,000	–	–	121,970	33,642	19,672	24 December 2009	Minimum of 2 years and maximum of 4 years	24 December 2014	3.20	2.4400
	2,746,000	–	–	1,070,183	855,376	2,531,193	25 March 2011	One-fourth of 600,000 Share Options will be vested every 12-month period starting from 20 September 2011	24 March 2016	2.41	1.8376
	5,516,340	–	–	(1,393,088)	1,717,795	5,841,047					
In aggregate	9,311,781	–	–	(1,393,088)	2,900,074	10,818,767					

* As a result of the Rights Issue, adjustment has been made, among others, to the number of the share options to subscribe for Shares granted pursuant to the Share Option Scheme with effect from 22 March 2013.

After the aforesaid adjustment upon the completion of the rights issue, the total number of the outstanding share options has been adjusted from 9,310,031 to 12,210,105 on 22 March 2013. During the year ended 31 December 2013, no share option was granted under the Share Option Scheme and no share option granted under the Share Option Scheme was exercised or cancelled, 1,393,088 share options granted under the Share Option Scheme were lapsed following the resignation of the relevant employees and eligible persons.

During the period from 1 January 2014 to the date of this annual report (the "Period"), there are 6,447,500 share options granted under the Share Option Scheme and no share option granted under the Share Option Scheme was exercised or cancelled, 795,360 share options granted under the Share Option Scheme were lapsed following the resignation of the relevant employees and eligible persons. As at the date of this annual report, there were outstanding share options carrying the rights to subscribe for 16,472,907 Shares which represented 1.15% of the issued share capital of the Company.

The following table sets out the details of the Company's share options granted during the period from 1 January 2014 to the date of this annual report (the "Period"):

Name/category of participants	Granted during the Period	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant
Executive director – Mr. Lu Bin	870,000	24 January 2014	One-fourth of the Share Options will be vested every 12-month period starting from 14 January 2015	14 October 2018	0.684	0.68
Senior Management of the Group	3,177,500	24 January 2014	One-fourth of the Share Options will be vested every 12-month period starting from 14 January 2015	14 October 2018	0.684	0.68
Other employees and eligible persons	1,800,000	14 January 2014	One-fourth of the Share Options will be vested every 12-month period starting from 14 January 2015	14 October 2018	0.69	0.66
Other employees and eligible persons	600,000	14 January 2014	One-fourth of the Share Options will be vested every 12-month period starting from 1 July 2014	14 October 2018	0.69	0.66
	6,447,500					

Please refer to note 31 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

SHARE AWARD SCHEME

The Board has approved the adoption of a share award scheme (the "Share Award Scheme") on 16 August 2010 ("Adoption Date") for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. Law Debenture Trust (Asia) Limited (the "Trustee") acts as the trustee for the Share Award Scheme. The Share Award Scheme will operate in parallel with the Company's Pre-IPO Share Option Scheme and the Share Option Scheme.

During the year ended 31 December 2013, no awarded shares were granted under the Share Award Scheme. The Trustee of the Share Award Scheme has purchased a total of 16,172,120 shares of the Company on 22 March 2013 in accordance with the terms of the prospectus relating to the Rights Issue. 1,135,110 awarded shares were released to awardees, and 994,050 awarded shares were lapsed following the resignations of the relevant employees and eligible persons.

As at the date of this annual report, there were 837,250 outstanding awarded shares and 36,876,238 un-awarded shares under the Share Award Scheme, representing approximately 1.82% and 80.02% respectively of the Share Award Scheme.

Further details of the Share Award Scheme are disclosed in note 32 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2013, the persons or corporations (other than a Director or chief executive of the Company) who have interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or have otherwise notified to the Company are as follows:

Name of substantial shareholder	**Nature of interest**	**Number of Ordinary shares (long positions)**	**Approximate percentage of interest in the Company's issued share capital** *(Note 1)*
HSBC International	Trustee (other than a bare trustee) *(Note 2)*	573,636,810	40.14%
River Road	Interest in controlled corporation *(Note 2)*	508,746,810	35.61%
Knight Bridge	Interest in controlled corporation *(Note 2)*	508,746,810	35.61%
Ever Novel	Interest in controlled corporation *(Note 3)*	367,115,715	25.69%
	Beneficial Owner *(Note 3)*	141,631,095	9.91%
Prime Century	Beneficial Owner *(Note 3)*	367,115,715	25.69%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2013 (i.e. 1,428,847,128 Shares).

2. HSBC International Trustee Limited ("HSBC International") is the trustee of family trusts of Mr. Liu Xiaosong, which, through intermediate holding companies (including but not exclusively River Road, Knight Bridge, Ever Novel and Prime Century), exercise or control the exercise of one third or more voting power at the general meetings of such companies and is deemed under the SFO to be interested in the shares of the Company held by such companies (573,546,810 Shares in total). The rest 90,000 shares is held by HSBC International for its other clients.

3. As at 31 December 2013, Prime Century directly held 367,115,715 shares and Ever Novel directly held 141,631,095 shares in the Company. Ever Novel was entitled to exercise or control the exercise of one third or more of the voting power at the general meetings of Prime Century and was deemed to be interested in the 367,115,715 shares in the Company held directly by Prime Century.

Save as disclosed above, as at 31 December 2013, the Directors are not aware of any other person or corporation other than the Directors or chief executives of the Company whose interests are set out in the section "Directors' and chief executives' interests in shares and underlying shares" above having an interest or short position in the shares or underlying shares of the Company representing 5% or more of the issued share capital of the Company which is required to be recorded pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

Structure Contracts

Reference is made to the subsection "Structure Contracts" under the section "History and Development" and the section "Connected Transactions" in the Prospectus. Due to restrictions in the PRC laws and regulations on foreign investment in businesses providing telecommunications value-added services in the PRC, the Group has entered into a number of contracts (the "Structure Contracts") with certain connected persons of the Company to operate the Group's relevant businesses in the PRC. The Structure Contracts are designed to provide the Company with effective control over and (to the extent permitted by the PRC laws) the right to acquire the equity interests in and/or assets of these connected persons. Such connected persons include:

1. Mr. Liu Xiaosong, the Chairman and an executive Director of the Company;

2. Huadong Feitian, a limited liability company established in the PRC which is beneficially owned as to 75% by Mr. Liu Xiaosong; and

As transactions under the Structure Contracts constitute continuing connected transactions of the Company, the Company has obtained waiver from the Stock Exchange from strict compliance with the requirements set out in Chapter 14A of the Listing Rules in respect of the continuing connected transactions under the Structure Contracts. Brief details of the Structure Contracts are set out below.

Coordination Agreement

Cash River, an indirect wholly owned subsidiary of the Company, entered into the coordination agreement on 20 September 2004 ("Coordination Agreement") with each of Huadong Feitian and Kuaitonglian (each an "Operator" and "each Operator" shall refer to each of Huadong Feitian and Kuaitonglian), respectively, pursuant to which, among other matters, (1) a supervisory management board (the "Supervisory Board") controlled by Cash River was set up to manage the business of the Operator and Cash River, (2) Cash River shall provide certain technology and information services to the Operator in return for the surplus cash (as defined below) and (3) the parties shall enter and cause their relevant affiliates to enter into such agreements (the "Implementation Agreements") as may be required to fulfill the obligations of each party, including a trademark license agreement, a domain name licence agreement, a consultancy services agreement and an agreement for purchase and sale of software.

"Surplus cash" is defined in the Coordination Agreements as immediately available cash of the Operator after deducting the aggregate amount of (i) the working capital required to maintain their daily operations and satisfy their needs for their business; (ii) the cash amount required for capital expenditure; and (iii) any other short-term anticipated expenditure, all as determined by the Supervisory Board from time to time.

The Coordination Agreements are effective from 1 January 2004 and remain in effect for the term of incorporation of the Operator but Cash River is entitled to terminate the agreements at its sole discretion with one month's notice.

Pursuant to the Coordination Agreements, Cash River entered into the following Implementation Agreements with Huadong Feitian and Kuaitonglian:

Consultancy Agreement

Cash River entered into the consultancy agreement on 20 September 2004 ("Consultancy Agreement") with each Operator, respectively, pursuant to which, among other matters, Cash River agreed to provide the Operator with technical consultancy services and information consultancy services in return for a monthly consultancy service fee in an amount as determined by the Supervisory Board, subject to a maximum amount of RMB40 million for any financial year of the Operator.

Each of the Consultancy Agreements is valid for three years from 20 September 2004 and should be automatically renewed for further three-year period unless Cash River gives the Operator notice of its intention not to extend the term at least one month prior to the expiration of the then current term. Each of the consultancy Agreement was renewed in December 2013.

Software SPA

Cash River entered into the software SPA on 20 September 2004 ("Software SPA") with each Operator, respectively, pursuant to which, among other matters, Cash River agreed to sell and the Operator agreed to purchase the software used to assist the Operator to develop interactive entertainment, social networking and other mobile value-added services for the Operator's provision of its business. The consideration for such software should be confirmed by separate detailed contracts for individual specific software.

Each of the Software SPA is effective from 20 September 2004 and remains in effect until full performance of both parties of their respective obligations under the terms of the software SPA.

Trademark Licence Agreement

Cash River entered into the trademark licence agreement on 20 September 2004 ("Trademark Licence Agreement") with Huadong Feitian and pursuant to this agreement, among other matters, Huadong Feitian granted an exclusive licence to Cash River in respect of its registered trademarks or trademarks being applied for registration (the "Licenced Trademark") that it owns in the PRC at RMB1.00 or at the lower amount permitted by the PRC laws.

The licence with respect to each of such Licenced Trademark is valid for the effective period (including the renewal period) of that particular Licenced Trademark, provided that the Trademark Licence Agreement is not terminated in accordance with its terms and conditions.

Domain Name Licence Agreement

Cash River entered into the domain name licence agreement on 20 September 2004 ("Domain Name Licence Agreement") with Huadong Feitian and pursuant to this agreement, among other matters, Huadong Feitian granted an exclusive licence to Cash River in respect of its registered domain names (the "Licenced Domain Name") at RMB1.00 or at the lowest amount permitted by the PRC laws.

The licence with respect to each Licenced Domain Name is valid for the effective period (including the renewal period) of that particular Licenced Domain Name, provided that the Domain Name Licence Agreement is not terminated in accordance with its terms and conditions.

Exclusive Right and Pledge Agreement

On 20 September 2004, Cash River entered into the exclusive right and pledge agreement ("Exclusive Right and Pledge Agreement") with each Operator individually and the respective Operator's shareholders, pursuant to which, among other matters:

- the Operator's shareholders granted Cash River an irrevocable and exclusive right to purchase, or designate any person to purchase on its behalf, all or part of their respective equity interests in the Operator, in one or more transfers as determined by Cash River in its sole discretion at the purchase price(s) of RMB1.00 or such higher amount as required by the PRC laws;

- each Operator granted Cash River an irrevocable and exclusive right to purchase, or to designate any person to purchase on its behalf, all or part of its assets, including, among others, fixed assets, current assets, intellectual property rights, ownership of equity interests in any person within or outside the PRC and the benefit (subject to the burden) of all contracts entered into by the Operator at the purchase price of RMB1.00 or such higher amount as required by the PRC laws;

- as collateral security for the prompt and full performance of the Operator's shareholders' obligations under the agreement, the Operator's shareholders granted to Cash River a continuing security interest of first priority and subject to no other encumbrances in their respective equity interests in the Operator;

- the Operator's shareholders jointly and severally covenanted that he/she will, among others, waive his/her right of first refusal or pre-emptive right to acquire any equity interests in the Operator being transferred by another shareholder of the Operator; and

- the Operator covenanted that it will, among others, not distribute profits to its shareholders directly or indirectly, not acquire or make any investment in any person without Cash River's prior written consent.

Each of the Exclusive Right and Pledge Agreements is effective from 20 September 2004 and remains in effect until the earliest of (i) the discharge in full of the Operator's shareholders obligations under the Exclusive Right and Pledge Agreement agreement; (ii) the completion of the disposal of the equity interests in the Operator in accordance with the terms of the Exclusive Right and Pledge Agreement agreement; or (iii) the expiry of the entire term of incorporation of the Operator as such term may be extended in accordance with PRC laws. Notwithstanding anything contained in the Exclusive Right and Pledge Agreement agreement, the Exclusive Right and Pledge Agreement agreement shall terminate automatically upon the exercise in full by Cash River of its right to purchase the registered capital of the Operator or upon the dissolution of the Operator.

The Company's independent non-executive Directors reviewed and confirmed that the continuing connected transactions carried out during the financial year had been entered into (i) in the ordinary and usual course of business of the Company; (ii) on terms no less favourable to the Company than those available to or from (as the case may be) independent third parties; and (iii) in accordance with the relevant provisions of the Structure Contracts that were fair and reasonable and in the interests of the Company and its shareholders as a whole. The Company's independent non-executive Directors also confirmed that (i) the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts so that the revenue generated by each Operator and their subsidiaries had been mainly retained by the Group; (ii) no dividends or other distributions had been made by each Operator to their shareholders; and (iii) any new Structure Contracts entered into, renewed or reproduced between the Group and each Operator during the financial year were fair and reasonable, or advantageous, so far as the Group was concerned and in the interests of the Company and its shareholders as a whole.

Continuing Connected Transactions with Duomi Music

The Nokia Project Subcontract Agreements

Reference is made to the announcement of the Company dated 4 November 2011. Since 25 October 2011, Beijing Caiyun Online Technology Co. Ltd. (北京彩雲在線技術開發有限公司, "Beijing Caiyun") is directly owned as to 44.74% by Mr. Liu Xiaosong and thus an Associate of Mr. Liu, who is the executive Director, a Substantial Shareholder of the Company, Beijing Caiyun therefore become a Connected Person of the Company, and the Nokia project subcontract agreements entered into by Huadong Feitian and Beijing Caiyun on 30 April 2011 (the "Nokia Project Subcontract Agreements") begun to constitute a continuing connected transaction for the Company from 25 October 2011. The Company has complied with the applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules.

The principal terms of the Nokia Project Subcontract Agreements are as follows:

Background Information

On 30 April 2011, Huadong Feitian entered into the Nokia project agreements (the "Nokia Project Agreements") with Nokia Alliance Internet Services Company Limited (the "Nokia Alliance", an independent third Party). Pursuant to the Nokia Project Agreements, Huadong Feitian agreed to develop certain music related application software and cooperate on the operation of the Comes With Music (Yue Sui Xiang) service; and Nokia Alliance agreed to pay Huadong Feitian the development price (the "Development Price") while the revenue to be derived from the cooperation on the operation of Comes With Music (Yue Sui Xiang) service will be split between Nokia Alliance and Huadong Feitian according to the agreed revenue sharing model.

Upon the signing of the Nokia Project Agreements, on 30 April 2011, Huadong Feitian entered into the Nokia Project Subcontract Agreements with Beijing Caiyun, pursuant to which Beijing Caiyun agreed to undertake certain work to be performed by Huadong Feitian under the Nokia Project Agreements; and Huadong Feitian agreed to pay Beijing Caiyun the agreed share of the Development Price and the agreed share of revenue to be derived from the Comes With Music (Yue Sui Xiang) service.

Subject Matter:

Subcontracting of certain development and operation work to be performed by Huadong Feitian under the Nokia Project Agreements to Beijing Caiyun, including but not limited to the provision of work space, hardware devices, appropriate technical support, post technical operation and maintenance, music library management, back support, etc.

Consideration payable to Beijing Caiyun:

a. For the software development, 60% of the Development Price upon deducing certain costs to be incurred from the provision of human resources and hardware devices.

b. For the operation of the Comes With Music (Yue Sui Xiang) service:

   (a) 70% of the full track revenue in the first year upon the signing of the Nokia Project Subcontract Agreements and to be adjusted from the second year onward; and

   (b) 20% of the ringtone revenue.

Duration:

The duration of the Nokia Project Subcontract Agreements is basically the same as the term of the Nokia Project Agreements, under which the work relating to the software development has been completed around in April 2012 and the work relating to the cooperation on the operation of the Comes With Music (Yue Sui Xiang) service has been terminated on 31 December 2013.

Cooperation Framework Agreement

Reference is made to the announcement of the Company dated 8 June 2013. Further to the above-mentioned Nokia Project Subcontract Agreement, the Company, through Huadong, Feitian entered into a Cooperation Framework Agreement with Beijing Caiyun on 8 June 2013, to promote the business development. Pursuant to the Cooperation Framework Agreement, the Company will provide promotion services of various products and payment and billing services for Beijing Caiyun, and Beijing Caiyun will provide promotion services for the ringtone services of the Company. The revenues generated from the above-mentioned services will be shared between the Company and Beijing Caiyun according to the revenues sharing formula as set out in the Cooperation Framework Agreement.

Mr. Liu is the executive Director and a Substantial Shareholder and thus a Connected Person, Beijing Caiyun is directly owned as to 44.74% by Mr. Liu and thus an Associate of Mr. Liu and a Connected Person of the Company, and the cooperation framework agreement entered into by Huadong Feitian and Beijing Caiyun on 8 June 2013 (the "Cooperation Framework Agreement") constitute a continuing connected transaction for the Company. The Company has complied with the applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules.

The principal terms of the Cooperation Framework Agreement are as follows:

Scope of Cooperation

(i) the Company agreed to provide promotion services of various products for Beijing Caiyun;

The Company will make use of its own advantages in channel resources and network connections to promote in all PRC provinces the various packaged products of Beijing Caiyun and other telecommunication operators including but not limited to: ① the flow package services operated jointly by Beijing Caiyun and China Unicom; ② the customized ringtone services provided by Beijing Caiyun on the telecommunication platforms operated by China Telecom and China Mobile. The revenues generated from customers' subscription and purchase of the abovementioned products will be shared between the Company and Beijing Caiyun in the ratio of 3:7 based on the clearing revenue figures received by Beijing Caiyun from the telecommunication operators after deduction of relevant taxes and costs and expenses in relation to promotion and marketing.

(ii) the Company agreed to provide payment and billing services for Beijing Caiyun;

The Company will provide payment and billing services to Beijing Caiyun by making use of its own billing codes obtained from telecommunication operators, which services will include without limitation to the provision of payment and billing channels and planning of payment and billing schemes. The revenues generated therefrom will be shared between the Company and Beijing Caiyun in the ratio of 2:8 based on the clearing revenue figures received by the Company from the telecommunication operators after deduction of relevant taxes and costs.

(iii) Beijing Caiyun agreed to provide promotion services for the ringtone services of the Company;

Beijing Caiyun will make use of the increasing market share of Duomi clients to promote the customized ringtone subscription services of the Company through the telecommunication platform operated by China Telecom and China Mobile. The revenues generated from the customers' subscription and purchase of the abovementioned products will be shared between the Company and Beijing Caiyun in the ratio of 4:6 based on the clearing revenue figures received by the Company from the telecommunication operators after deduction of the relevant taxes.

The Company or its subsidiaries (including Huadong Feitian) and Beijing Caiyun will enter into separate agreements from time to time to set out detailed terms in relation to provision of the above services, including but not limited to the pricing basis and annual transaction amounts, in accordance with all the terms and conditions of the Cooperation Framework Agreement.

Duration:

for a term of one year from the date of the Cooperation Framework Agreement.

ANNUAL CAP

The following table sets out the proposed annual caps of the transactions contemplated under the Subcontract Agreement and the Cooperation Framework Agreement from 8 June 2013 to 7 June 2014.

	Annual Cap from 8 Jun 2013 to 31 Dec 2013 (RMB'000)	**Annual Cap from 1Jan 2014 to 7 June 2014** (RMB'000)
Transactions under the Subcontract Agreement	1,000 *Note 1*	0
Transations under the Cooperation Framework Agreement		
Promotion services of various products provided by the Company for Beijing Caiyun	900	900
Products payment and billing services provided by the Company for Beijing Caiyun	2,400	2,400
Promotion services of ringing tone services provided by Beijing Caiyun for the Company	400	400
TOTAL:	**4,700**	**3,700**

Note 1: According to the announcement of the Company dated 4 November 2011, the highest annual caps for the continuing connected transactions conducted under the Subcontract Agreement were RMB3,138,916 and RMB1,251,390 respectively for the financial years ended 31 December 2013 and 31 December 2014 (expiring on 30 April 2014). As at the date of this announcement, the Company on a prudent basis estimated that the transaction under the Subcontract Agreement will be completed by the end of 2013, and the highest annual cap for the Subcontract Agreement shall be revised to RMB1,000,000 for the year of 2013 and nil for 2014.

The above-mentioned annual caps for the Cooperation Framework Agreement were determined based on: (i) the judgment of development trend of the industry; (ii) the historical growth rates of related products in the past; and (iii) the reasonable assessment of the market scale of related services.

The Company's independent non-executive Directors have reviewed and confirmed that the continuing connected transactions under the Nokia Project Subcontract Agreements carried out during the financial year ended 31 December 2013 had been entered into (i) in the ordinary and usual course of business of the Company; (ii) the terms and price had been arrived at after arm's length negotiations and are on normal commercial terms; (iii) are fair and reasonable and are in the interests of the Group and the Shareholders as a whole; and(iv) the amount of the transactions contemplated under the Subcontract Agreement and the Cooperation Framework Agreement for the year ended 31 December 2013 has not exceeded the cap disclosed in the previous announcement.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group.

On 26 May 2008, each of the then controlling shareholders (within the meaning under the Listing Rules) of the Company, namely Mr. Liu Xiaosong, Prime Century, Ever Novel and Grand Idea Holdings Limited ("Grand Idea"), entered into a deed of non-competition dated 26 May 2008 (the "Deed of Non-competition") in favor of the Company (for itself and the benefits of other members of the Group), pursuant to which he/it has undertaken to the Company that he/it would not, and would procure that his/its associates would not, during the restricted period set out below, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time. Details of the non-competition undertaking have been set out in the subsection headed "Non-competition undertaking" under the section headed "Relationship with Controlling Shareholders" of the Prospectus.

The "restricted period" stated in the Deed of Non-competition refers to the period during which:

(i) the shares of the Company remain listed on the Stock Exchange;

(ii) regarding any member of the then controlling shareholders, so long as he or his associates directly or indirectly holds an equity interest in the Group; and

(iii) the then controlling shareholders jointly are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company.

As disclosed in the announcement of the Company dated 24 April 2009 and 9 July 2009, as a result of the reorganisation of the shareholdings in the Company by certain shareholders of the Company, Prime Century and Grand Idea have ceased to become the controlling shareholders of the Company respectively, but they remain to be bound by the provision of the deed of non-competition.

The Company has received the annual confirmations from each of the then controlling shareholders of the Company in respect of their respective compliance with the terms of the Deed of Non-competition.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 42 to the financial statements.

AUDIT COMMITTEE

The Audit Committee of the Company, all members of which are independent non-executive Directors with the Chairman Mr. Chan Yiu Kwong having appropriate professional qualifications and experience in financial matters, has reviewed the accounting policies, accounting standards and practices adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the consolidated financial statements and results of the Group for the year ended 31 December 2013.

AUDITORS

The financial statements for the year ended 31 December 2013 have been audited by the Company's auditors, Ernst & Young, who will retire in the forthcoming annual general meeting. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

There has been no change of the auditors of the Company since the listing of the Company's shares on the Stock Exchange on 12 June 2008.

ON BEHALF OF THE BOARD
Liu Xiaosong
Chairman

Hong Kong
27 March 2014

The Board of Directors ("Board") and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Company believes that good corporate governance provides a framework that is essential for effective management, a healthy corporate culture, and successful business growth and enhancing shareholders' value.

The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders. Throughout the year ended 31 December 2013, the Company has applied the principles and complied with all code provisions, and where applicable, the recommended best practices as set out in the Corporate Governance Code (the "CG Code"), except for the deviation from code provision A.2.1 as explained on page 34 in the section headed "Chairman and Chief Executive Officer".

Code provision A.2.1 in the CG Code stipulates that the roles of Chairman and CEO should be separate and should not be performed by the same individual. In the year ended 31 December 2013, the chairman and chief executive officer of the Company are both held by Mr. Liu Xiaosong, the Company did not complied with code provision A.2.1. Considering Mr. Liu Xiaosong has diversified experience in the technology, media and telecommunication industry and has been being responsible for overall management and strategic planning of the Group, the Board considered that Mr. Liu is able to lead the Board in making business decision for the Group. Therefore, Mr. Liu has had the dual roles of the Chairman and CEO of the Company despite deviation from code provision A.2.1 during the year ended 31 December 2013.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure that they comply with the statutory and professional standards and align with the latest developments.

THE BOARD

Responsibilities of the Board

The Board is responsible for the leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board also oversees the Group's businesses, strategic decisions and performance as well as performs the corporate governance duties.

The Board has delegated to the senior management the authority and responsibilities for the day-to-day management and operations of the Group. In addition, the Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee, and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

All Directors have full and timely access to the advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The senior management of the Company provides all directors with monthly updates on the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties. Each Director knows that he is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

All directors take decisions objectively in the interests of the Company and have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

Delegation of Management Functions

The Board reserves for its decisions on all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflicts of interest), financial information, appointment of Directors and other significant financial and operational matters.

The day-to-day management, administration and operation of the Company are delegated to the CEO and the senior management. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board has given clear directions as to such officers's powers and responsibilities, and periodically reviews their delegated functions and work tasks to ensure such arrangements remain appropriate to the Company's needs. The Board has the full support of the CEO and the senior management to discharge its responsibilities.

Board Composition

The Board currently comprises 5 members, consisting of 2 executive Directors and 3 independent non-executive Directors. None of the members of the Board is related to one another.

Three Board Committees, namely, Audit Committee, Remuneration Committee and Nomination Committee, have been established with specific terms of reference which were posted on the websites of the Company and HKEx.

During the year ended 31 December 2013,the Board has at all time met the relevant requirements of the Listing Rules relating to having at least one-third of independent non-executive Directors, comprising at least three independent non-executive Directors and having one independent non-executive Director with the appropriate professional qualifications and accounting and related financial management expertise.

The list of all Directors is set out under "Corporate Information" on page 2 of this annual report and all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive Directors are expressly identified in all corporate communications pursuant to the Listing Rules.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive Directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive Directors bring a wide range of business and financial expertise, experience and independent judgment to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflicts of interest and serving on Board committees, all non-executive Directors have made various contributions to the effective direction of the Company.

Appointment, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's articles of association. The Nomination Committee as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment and succession planning of Directors and assessing the independence of independent non-executive Directors.

Each of the executive Directors is engaged on a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice or payment in lieu of such notice.

Each of the independent non-executive Directors has entered into a service contract with the Company for a specific term of three years and is subject to retirement by rotation once every three years. And they should be re-appointed at any annual general meeting of the Company during their term of office. The appointment may be terminated by not less than three month's written notice or payment in lieu of such notice.

In accordance with the Company's articles of association which were amended by a written resolution dated 26 May 2008, all Directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting or the first annual general meeting respectively after appointment.

The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board regularly to ensure that the Board has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

Where vacancies on the Board exist, the Nomination Committee will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary. The recommendations of the Nomination Committee are then put to the full Board for decision.

The Nomination Committee recommended the re-appointment of the Directors Mr. Lu Bin, Ms. Wu Shihong and Mr. Song Ke standing for re-election at the next forthcoming annual general meeting of the Company. The Company's circular dated 17 April 2014 contains detailed information of the directors standing for re-election.

Induction and Continuous Professional Development for Directors

Each newly appointed Director receives formal, tailored and comprehensive induction on the first occasion of his/her appointment, he/she will get a package setting out the duties and responsibilities of director under the Listing Rules, the Companies Ordinance and other related ordinances and relevant regulatory requirements of Hong Kong, including the Guidelines for Directors issued by the Hong Kong Companies Registry and the Hong Kong Institute of Directors, supported by lawyers explanation, so that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Meantime, he/she will have chance to communicate with executive directors as to ensure that he/she has appropriate understanding of the business and operations of the Company.

Development and training of Directors is an ongoing process. During the year, (1) the Company provide a seminar on the insider information disclosure guidelines provided by professional institution for the year; (2) the Company Secretary unregularly circulates details of training courses which may be of interest to Directors. All Directors are encouraged to attend relevant training courses with appropriate emphasis on the roles, functions and duties of the Directors, at the Company's expense; (3) the Company Secretary also unregularly send relative laws, regulations and latest cases to directors in order to assist the directors to perform their duties appropriately.

The Company has received written confirmations from all of the Directors on their training records for the year ended 31 December 2013; the Board has reviewed and evaluated such training records and raised the expectation for future training in the board meeting held on 27 March 2014.

According to the aforementioned records, a summary of the training received by the Directors is set out as follows:

Name of Directors	Reading regulatory updates	Attending or participating briefings/seminars/ conferences/workshops relevant to the Company's businesses and directors' duties
Executive Directors		
Mr. Liu Xiaosong	√	√
Mr. Lu Bin	√	√
Independent non-executive Directors		
Mr. Chan Yiu Kwong	√	√
Mr. Zeng Liqing	√	√
Ms. Wu Shihong	√	√
Mr. Song Ke	√	√

Board Meetings

Code provision A.1.1 prescribes that at least 4 regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of Directors, either in person or through other electronic means of communication.

During the period ended 31 December 2013, eight Board meetings were held for reviewing and approving the financial and operating performance, rights issue, subscription for the wealth management product, grant of the share options and material transactions, and considering and approving the overall strategies and policies of the Company. The attendance records of each Director at the Board meetings for the period ended 31 December 2013 are set out below:

Name of Directors	**Number of Meetings and Directors' Attendance**
Executive Directors	
Mr. Liu Xiaosong *(Chairman)*	8/8
Mr. Lu Bin	7/8
Independent non-executive Directors	
Mr. Chan Yiu Kwong	8/8
Mr. Zeng Liqing	4/5#
Ms. Wu Shihong	6/8
Mr. Song Ke	3/3#

Notes:

\# With effect from 30th May 2013, Mr. Zeng Liqing has resigned as an Independent Non-executive Director of the Company. During his term of office, there is five board meetings held by the Company.

\# With effect from 30th May 2013, Mr. Song Ke has been appointed as an Independent Non-executive Director of the Company. During his term of office, there is three board meetings held by the Company.

Apart from the abovementioned regular Board meetings, a meeting between the Chairman and the non-executive Directors (including independent non-executive Directors) without the presence of executive Directors was also held during the year. The attendance rate of this meeting was 100%.

General Meetings

During the period ended 31 December 2013, two general meetings were held by the Company. The Chairman of the Board, Chairman of the Audit Committee and Chairman of the Remuneration Committee attended the annual general meeting in 24 May 2013, and were available to answer questions. The attendance records of each Director at the general meetings are set out below:

Members of the Board	**Attendance**
Executive Directors	
Mr. Liu Xiaosong *(Chairman of the Board)*	2/2
Mr. Lu Bin	1/2
Independent Non-executive Directors	
Mr. Chan Yiu Kwong	2/2
Mr. Zeng Liqing	2/2#
Ms. Wu Shihong	1/2
Mr. Song Ke	0/0#

Notes:

\# With effect from 30th May 2013, Mr. Zeng Liqing has resigned as an Independent Non-executive Director of the Company. During his term of office, there is two general meetings held by the Company.

\# With effect from 30 May 2013, Mr. Song Ke has been appointed as an Independent Non-executive Director of the Company. During his term of office, there is no general meeting held by the Company.

Practices and Conduct of Meetings

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance. Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all Directors at least 3 days before each Board meeting or committee meeting to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The senior management attend, where necessary, Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

Directors are normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to Directors for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 in the CG Code stipulates that the roles of Chairman and CEO should be separate and should not be performed by the same individual. In the year ended 31 December 2013, the chairman and chief executive officer of the Company are both held by Mr. Liu Xiaosong, the Company did not comply with code provision A.2.1. Considering Mr. Liu Xiaosong has diversified experience in the technology, media and telecommunication industry and has been being responsible for overall management and strategic planning of the Group, the Board considered that Mr. Liu is able to lead the Board in making business decision for the Group. Therefore, Mr. Liu has had the dual roles of the Chairman and CEO of the Company despite deviation from code provision A.2.1 during the year ended 31 December 2013.

BOARD COMMITTEES

The Board has established three committees, namely, the Remuneration Committee, the Audit Committee and the Nomination Committee for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the website of the Stock Exchange www.hkexnews.hk and the Company's website www.a8.com.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advices in appropriate circumstances, at the Company's expenses.

Remuneration Committee

The Remuneration Committee comprises three members, namely Ms. Wu Shihong (Chairman of the Remuneration Committee), Mr. Liu Xiaosong and Mr. Song Ke. The majority of them are independent non-executive Directors.

The primary objectives of the Remuneration Committee include:

- To make recommendations to the Board on the establishment of procedures for developing remuneration policy and structure for all Directors and the senior management;
- To determine and approve, with delegated responsibility, the remuneration packages of individual executive Directors and the senior management; and
- To make recommendations on the remuneration of the non-executive Directors by reference to the market practice and conditions as well as the time commitment and responsibilities devoted by the individual non-executive Directors.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration.

For the year ended 31 December 2013, two meetings were held by the Remuneration Committee for considering and reviewing all Directors' and senior management remuneration with reference to the Group's and individual performance and making recommendations on the remuneration of the non-executive Directors. The attendance records of the Remuneration Committee are set out below:

Members of the Remuneration Committee	**Attendance**
Ms. Wu Shihong *(Chairman of the Remuneration Committee and Independent Non-executive Director)*	2/2
Mr. Liu Xiaosong *(Executive Director)*	2/2
Mr. Zeng Liqing *(Non-executive Director)*	2/2#
Mr. Song Ke *(Non-executive Director)*	0/0#

Notes:

With effect from 30 May 2013, Mr. Song Ke has been appointed as a member of the Remuneration Committee of the Company. During his term of office, there is no meeting held by the Remuneration Committee.

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Yiu Kwong (Chairman of the Audit Committee), Ms. Wu Shihong, and Mr. Song Ke, which comprises one independent non-executive Director with the appropriate professional qualifications and accounting and related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised from time to time in terms substantially the same as the provisions set out in the CG Code. The latest version of the terms of reference of the Audit Committee is available on the websites of the Company and HKEx. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system and internal control procedures, review of the Group's financial information and review of the relationship with the external auditor of the Company. Regular meetings have been held by the Audit Committee since its establishment.

The primary objectives of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, compliance officer, internal auditor or external auditors before submission to the Board.

- To review the fees and terms of engagement of the external auditors by reference to the work performed by the auditors and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held three meetings for the year ended 31 December 2013, among other things, review the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors. The external auditors were invited to attend the meetings to discuss with the Audit Committee issues arising from the audit and financial reporting matters.

The attendance records of the Audit Committee are set out below:

Members of the Audit Committee	**Attendance**
Mr. Chan Yiu Kwong *(Chairman of the Audit Committee and Independent Non-executive Director)*	3/3
Mr. Zeng Liqing *(Non-executive Director)*	1/2#
Ms. Wu Shihong *(Non-executive Director)*	3/3
Mr. Song Ke *(Non-executive Director)*	1/1#

Notes:

With effect from 30 May 2013, Mr. Zeng Liqing resigned as a member of the Audit Committee of the Company. During his term of office, there is two meeting held by the Audit Committee.

With effect from 30 May 2013, Mr. Song Ke has been appointed as a member of the Audit Committee of the Company. During his term of office, there is one meeting held by the Audit Committee.

The Company's annual results for the year ended 31 December 2013 have been reviewed by the Audit Committee.

Nomination Committee

The Nomination Committee comprises three members, namely Mr. Liu Xiaosong (Chairman of the Nomination Committee), Ms. Wu Shihong and Mr. Song Ke. The majority of them are independent non-executive Directors.

The primary objectives of the Nomination Committee include:

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to implement the Company's corporate strategy;

- To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- To assess the independence of independent non-executive Directors;

- To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive; and

- To review the Board Diversity Policy, as appropriate; and review the measurable, objectives that the Board has set for implementing the Board Diversity Policy, and the progress on achieving the objectives.

For the year ended 31 December 2013, two meetings were held by the Nomination Committee, to review the structure, size and composition (including the skills, knowledge and experience) of the Board, make recommendation to the Board on the election of Independent non-executive Director, assess the independence of independent non-executive Directors, recommend the Directors stand for re-election at the forth coming annual general meeting of the Company, and propose amendments to the Board on the Committee's terms of reference taking into account the Board Diversity Policy etc.

The attendance record of such meeting is set out below:

Members of the Nomination Committee	**Attendance**
Mr. Liu Xiaosong *(Chairman of the Nomination Committee, Executive Director)*	2/2
Ms. Wu Shihong *(Independent non-executive Director)*	2/2
Mr. Zeng Liqing *(Independent non-executive Director)*	2/2#
Mr. Song Ke *(Independent non-executive Director)*	0/0#

Notes:

\# With effect from 30 May 2013, Mr. Song Ke has been appointed as a member of the Nomination Committee of the Company. During his term of office, there is no meeting held by the Audit Committee.

A meeting was held by the Nomination Committee on 24 March 2014, to review the objectives set for implementing the Board Diversity Policy as well as the composition and diversity of the Board. The names of current Directors and their biographies are set out in the section "Directors and Senior Management" of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its Own Code on terms no less exacting than the Model Code.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2013.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of inside information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The Directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2013.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial and other information and position of the Company put to the Board for approval.

EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on page 41.

During the year ended 31 December 2013, the remuneration paid to the Company's external auditors, Ernst & Young, is set out below:

Category of services	**Fee paid/payable** (RMB'000)
Audit services	1,356
Non-audit services	
– other services	567
Total	1,923

INTERNAL CONTROLS

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Group including the efficiency of business operation, financial management and risk management of operating flow, etc.

The Company has developed its systems of internal control and risk management and will continue to review and assess procedures for their effectiveness.

The Audit Committee provides supervision of the internal control system of the Group, reports to the Board on any material issues and makes recommendations.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The internal audit department reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address variances and identified risks.

The key elements of the Group's internal control system include the following:

- The organisational structure is clearly defined with distinct lines of authority and control responsibilities.
- A comprehensive financial accounting system has been established to provide indicators for performance measurement and to ensure compliance with relevant rules.
- Plans for financial reporting, operations and compliance with reference to potential significant risks are prepared annually by the senior management.
- Unauthorised expenditures and release of confidential information are strictly prohibited.
- Proper policy is in place to ensure the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.
- The control process and risk factors are reviewed, evaluated, and monitored on a regular basis so that any findings and measures to address the variances and identified risks could be reported to the Audit Committee.

During the year under review, the Company engaged internal audit department to review and check internal control regularly and systematically. Report from internal audit department were presented to and reviewed by the Audit Committee.

SHAREHOLDER RIGHTS

Procedures for shareholders to convene EGM

Pursuant to Article 58 of the Articles, any one or more Shareholder holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid-up capital of the Company carrying the right of voting at the general meetings shall at all times have the right, by written requisition (the "Requisition", and for the Shareholder concerned, the "Requisitionist") to the Board or the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

The Requisition must state the objects of the meeting, contain the full name(s) of the Requisitionist(s), his/her/their contact details and identification, be signed by the Requisitionist and be deposited at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, the Company's principal place of business in Hong Kong, for the attention of the Company Secretary.

An EGM shall be held within two (2) months after the deposit of such Requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the Requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for Shareholders to put forward enquiries to the Board or put forward proposals at general meetings

To put forward enquiries to the Board, the Shareholders may either contact the Company Secretary through email at ir@a8.com, or submit a written notice of their enquiries with their detailed contact information to the Company Secretary at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, the Company's principal place of business in Hong Kong, or directly raise questions at general meetings.

Procedures for Shareholders to propose a person for election as a Director

As regards the procedure for Shareholders to propose a person for election as a Director, Shareholders are requested to follow the requirements and procedures as set out in the Corporate Governance Section of the Company's website.

Voting by poll

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual Directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group pays much attention to maintaining good relationships with Shareholders and investors. The Group has set up a specialized department to deal with investor relationships affairs. We try to achieve two-way communication with Shareholders, investors and media through consistent, timely and transparent disclosure of information.

The Group strictly adheres to non-selective disclosure guidelines to ensure that communications with Shareholders, investors and the media are open and fair. No material, non-public information is made available to any individual on a selective basis. The Group experienced difficulties and faced various challenges during the past two years but we kept the consistent communication with the market through publishing results announcement and reports, holding investors conferences, arranging meetings with investors in person or via conference calls, participating in various investor forums, distributing press release etc. to provide necessary information to form their own judgments and provided feedback to management in order to improve operations and corporate governance of the Group.

Meanwhile, the Group continues to update the contents including business information, financial information, announcements, corporate governance etc. stated on the website of www.a8.com and investor relationship's website http://ir.a8.com to improve transparency. The public can communicate with the Group through online communication column, phone call and ir's mailbox which are handled and replied by professional IR employees.

The general meetings of the Company provide a good opportunity for communication between the Board and the Shareholders. The Company considers the AGM as an important event and all Directors make efforts to attend. The Chairman of the Board as well as the chairman of each Board Committees will be available to communicate with the Shareholders face to face. A representative (usually the partner) of the external auditor also attends the AGM and will take questions from Shareholders relating to their audit of the Company's financial statements.

The Company understands that increasing transparency in capital market participants will improve corporate governance and be beneficial to the long-term development of the Company. The Company welcomes investors and Shareholders to share opinions and suggestions for the development of the Company to the Company's investor relation team via email or telephone.

23/F, A8 Music Building, No.1002 Keyuan Road,
Hi-tech Park, Nanshan District, Shenzhen, PRC.
Telephone: +86 755 3332 6316 Email: ir@a8.com
Website: www.a8.com http://ir.a8.com

Company Secretary

For the year ended 31 December 2013, Ms. Gao Keying ("Ms. Gao", who is an employee of the Company) and Ms. Ho Yip, Betty ("Ms. Ho") act as joint Company Secretaries for the Company.

The Directors all have access to the Company Secretaries who are responsible for ensuring that Board procedures, and all applicable law, rules and regulations are properly followed. The Company Secretaries also keep fully updating the Board with all legislative, regulatory and corporate governance developments.

During the year under review, both Ms. Gao and Ms. Ho have taken over 15 hours of relevant professional training to refresh their skills and knowledge.

Constitutional Documents

During the year under review, there was no change to the Articles of Association of the Company. A copy of the latest consolidated version of it is available on the websites of the Company and the Stock Exchange.

EY 安永

To the shareholders of A8 Digital Music Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of A8 Digital Music Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 114, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
27 March 2014

Consolidated Statement of Profit or Loss

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE		189,736	345,093
Business tax		(2,237)	(5,717)
Net revenue	6	187,499	339,376
Cost of services provided		(125,339)	(223,094)
Gross profit		62,160	116,282
Other income and gains, net	6	111,420	19,770
Selling and marketing expenses		(55,573)	(90,055)
Administrative expenses		(49,152)	(50,347)
Other expenses, net		(15,604)	(2,735)
Share of losses of associates	19	(31,964)	(19,526)
Share of loss of a joint venture	20	(67)	(73)
PROFIT/(LOSS) BEFORE TAX	7	21,220	(26,684)
Income tax expense	10	(12,747)	(3,328)
PROFIT/(LOSS) FOR THE YEAR		8,473	(30,012)
Attributable to:			
Owners of the Company	11	9,820	(29,868)
Non-controlling interests		(1,347)	(144)
		8,473	(30,012)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic (RMB per share)		0.8 cents	(4.9 cents)
Diluted (RMB per share)		0.8 cents	(4.9 cents)

Consolidated Statement of Comprehensive Income

Year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**8,473**	(30,012)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange realignment	**(7,743)**	(122)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**730**	(30,134)
Attributable to:		
Owners of the Company	**2,077**	(29,990)
Non-controlling interests	**(1,347)**	(144)
	730	(30,134)

Consolidated Statement of Financial Position

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	132,563	135,520
Investment properties	15	210,800	–
Prepaid land lease payments	16	13,855	26,240
Goodwill		1,515	1,515
Prepayment for acquisition of items of property, plant and equipment		1,051	8,160
Intangible assets	17	6,799	29,077
Investments in associates	19	3,318	3,651
Investment in a joint venture	20	3,360	3,427
Deferred tax assets	28	2,906	1,193
Conversion option embedded in preferred shares	29	13,015	12,600
Debt portion of preferred shares	29	–	26,890
Total non-current assets		389,182	248,273
CURRENT ASSETS			
Accounts receivable	21	51,141	53,100
Prepayments, deposits and other receivables	22	19,081	21,275
Investments at fair value through profit or loss	23	10,316	1,371
Restricted cash balances	24	16,476	2,940
Time deposits with original maturity of more than three months	24	–	8,318
Cash and cash equivalents	24	449,157	374,562
Total current assets		546,171	461,566
CURRENT LIABILITIES			
Accounts payable	25	28,967	30,262
Other payables and accruals	26	80,126	79,096
Tax payable		5,160	5,113
Deferred income		7,770	3,533
Total current liabilities		122,023	118,004
NET CURRENT ASSETS		424,148	343,562
TOTAL ASSETS LESS CURRENT LIABILITIES		813,330	591,835
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing	27	–	69,567
Deferred tax liabilities	28	14,644	1,382
Deferred income		12,800	5,620
Total non-current liabilities		27,444	76,569
Net assets		785,886	515,266

Consolidated Statement of Financial Position (continued)

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	30	11,914	4,203
Reserves	33(a)	775,213	510,957
		787,127	515,160
Non-controlling interests		(1,241)	106
Total equity		785,886	515,266

Liu Xiaosong
Director

Lu Bin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2013

	Attributable to owners of the Company													
	Issued capital RMB'000 (note 30)	Share premium account RMB'000 (note 30)	Shares held under share award scheme RMB'000 (note 32)	Merger reserve RMB'000 (note 33(a))	Surplus contributions RMB'000 (note 33(a))	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note 33(a))	Reserve fund RMB'000 (note 33(a))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	4,201	184,959	(1,816)	29,135	10,522	20,394	2,132	10,833	21,399	4,422	254,597	540,778	–	540,778
Loss for the year	–	–	–	–	–	–	–	–	–	–	(29,868)	(29,868)	(144)	(30,012)
Other comprehensive loss for the year:														
Exchange realignment	–	–	–	–	–	–	(122)	–	–	–	–	(122)	–	(122)
Total comprehensive loss for the year	–	–	–	–	–	–	(122)	–	–	–	(29,868)	(29,990)	(144)	(30,134)
Capital contribution from non-controlling shareholders	–	–	–	–	–	–	–	–	–	–	–	–	250	250
Exercise of share options	2	475	–	–	–	(324)	–	–	–	–	–	153	–	153
Equity-settled share-based payment arrangements	–	–	–	–	–	4,219	–	–	–	–	–	4,219	–	4,219
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	–	(2,198)	–	–	–	–	2,198	–	–	–
Employee share award scheme:														
– release of award shares	–	–	441	–	–	(441)	–	–	–	–	–	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	–	244	–	(244)	–	–	–
At 31 December 2012	4,203	185,434*	(1,375)*	29,135*	10,522*	21,650*	2,010*	10,833*	21,643*	4,422*	226,683*	515,160	106	515,266

	Attributable to owners of the Company													
	Issued capital RMB'000 (note 30)	Share premium account RMB'000 (note 30)	Shares held under share award scheme RMB'000 (note 32)	Merger reserve RMB'000 (note 33(a))	Surplus contributions RMB'000 (note 33(a))	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note 33(a))	Reserve fund RMB'000 (note 33(a))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2012 and 1 January 2013	4,203	185,434	(1,375)	29,135	10,522	21,650	2,010	10,833	21,643	4,422	226,683	515,160	106	515,266
Profit for the year	-	-	-	-	-	-	-	-	-	-	9,820	9,820	(1,347)	8,473
Other comprehensive loss for the year:														
Exchange realignment	-	-	-	-	-	-	(7,743)	-	-	-	-	(7,743)	-	(7,743)
Total comprehensive income for the year	-	-	-	-	-	-	(7,743)	-	-	-	9,820	2,077	(1,347)	730
Rights issue	7,711	269,904	-	-	-	-	-	-	-	-	-	277,615	-	277,615
Equity-settled share-based payment arrangements	-	-	-	-	-	1,555	-	-	-	-	-	1,555	-	1,555
Share issue expenses	-	(4,568)	-	-	-	-	-	-	-	-	-	(4,568)	-	(4,568)
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	-	(1,091)	-	-	-	-	1,091	-	-	-
Employee share award scheme:														
– share purchased for share award scheme	-	-	(4,712)	-	-	-	-	-	-	-	-	(4,712)	-	(4,712)
– release of award shares	-	-	281	-	-	(281)	-	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	-	-	-	-	-	29	-	(29)	-	-	-
At 31 December 2013	11,914	450,770*	(5,806)*	29,135*	10,522*	21,833*	(5,733)*	10,833*	21,672*	4,422*	237,565*	787,127	(1,241)	785,886

* These reserve accounts comprise the consolidated reserves of RMB775,213,000 (2012: RMB510,957,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		21,220	(26,684)
Adjustments for:			
Depreciation	7	1,439	1,454
Amortisation of prepaid land lease payments	7	585	585
Amortisation of intangible assets	7	9,288	8,579
Gain on disposal of a subsidiary	6	(256)	–
Loss on disposal of investments at fair value through profit or loss	7	1,084	555
Impairment of an intangible asset	7	12,889	–
Loss/(gain) on disposal of items of property, plant and equipment	7	34	(6)
Fair value loss/(gain) on investments at fair value through profit or loss	7	55	(598)
Fair value gain on conversion option embedded in preferred shares	6	(415)	(1,575)
Fair value gains on investment properties	6	(90,158)	–
Government grant released	6	–	(2,613)
Bank interest income	6	(15,474)	(14,414)
Imputed interest income	6	(4,741)	(215)
Share of losses of associates	19	31,964	19,526
Share of loss of a joint venture	20	67	73
Impairment of accounts receivable	7	132	1,184
Impairment of other receivables	7	–	820
Write-back of impairment of accounts receivable	7	(1,545)	–
Equity-settled share option expense	7	968	1,569
Equity-settled share award expense	7	587	2,650
		(32,277)	(9,110)
Decrease in accounts receivable		3,372	774
Decrease in prepayments, deposits and other receivables		2,114	1,558
(Decrease)/increase in accounts payable		(1,295)	3,779
Decrease in other payables and accruals		(11,972)	(3,997)
Increase in deferred income		11,417	4,958
Cash used in operations		(28,641)	(2,038)
Tax paid		(1,151)	(2,276)
Net cash flows used in operating activities		(29,792)	(4,314)

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of a subsidiary	34	760	–
Purchases of items of property, plant and equipment		(74,272)	(70,772)
Proceeds from disposal of items of property, plant and equipment		430	636
Purchases of intangible assets	17	(593)	(3,615)
Purchases of investments at fair value through profit or loss		(128,656)	(1,000)
Proceeds from disposal of investments at fair value through profit or loss		118,572	1,552
Purchase of preferred shares		(11,314)	(26,386)
Purchase of an interest in a joint venture		–	(3,500)
Interest received		15,474	14,414
Increase in restricted cash		(13,536)	(2,940)
Increase in prepayments for acquisition of items of property, plant and equipment		(567)	(8,160)
Decrease in short term time deposits with original maturity of more than three months		8,318	63,593
Net cash flows used in investing activities		(85,384)	(36,178)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from rights issue		277,615	153
Share issue expenses		(4,568)	–
Purchase of award shares		(4,712)	–
New bank loan		13,272	56,567
Repayment of bank loan		(82,839)	–
Interest paid	8	(1,254)	(2,390)
Capital contribution from non-controlling shareholders		–	250
Net cash flows from financing activities		197,514	54,580
NET INCREASE IN CASH AND CASH EQUIVALENTS		82,338	14,088
Cash and cash equivalents at beginning of year		374,562	360,596
Effect of foreign exchange rate changes, net		(7,743)	(122)
CASH AND CASH EQUIVALENTS AT END OF YEAR		449,157	374,562
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	337,301	194,039
Time deposits with original maturity of less than three months when acquired	24	111,856	180,523
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		449,157	374,562

Statement of Financial Position

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	**103,305**	101,750
Total non-current assets		**103,305**	101,750
CURRENT ASSETS			
Other receivables		**94**	125
Amounts due from subsidiaries	18	**381,099**	107,912
Cash and cash equivalents	24	**5,093**	13,525
Total current assets		**386,286**	121,562
CURRENT LIABILITIES			
Other payables and accruals		**1,911**	635
Total current liabilities		**1,911**	635
NET CURRENT ASSETS		**384,375**	120,927
Net assets		**487,680**	222,677
EQUITY			
Issued capital	30	**11,914**	4,203
Reserves	33(b)	**475,766**	218,474
Total equity		**487,680**	222,677

Liu Xiaosong
Director

Lu Bin
Director

1. CORPORATE INFORMATION

A8 Digital Music Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in providing digital entertainment services including digital music and mobile games in the People's Republic of China (the "PRC" or "Mainland China").

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") approved by the International Accounting Standards Committee that remain in effect.

The financial statements have been prepared under the historical cost convention, except for investment properties, investments at fair value through profit or loss and a conversion option embedded in the preferred shares which have been measured at fair value. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2013. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendment to IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
IAS 19 (Revised)	*Employee Benefits*
IAS 27 (Revised)	*Separate Financial Statements*
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*
IAS 36 Amendments	Amendments to IAS 36 *Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets (early adopted)*
Annual Improvements 2009-2011 Cycle	*Amendments to a number of IFRSs issued in May 2012*

The adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 9	*Financial Instruments*[4]
IFRS 9, IFRS 7 and IAS 39 Amendments	*Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*[4]
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	*Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities*[1]
IFRS 14	*Regulatory Deferral Accounts*[3]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits – Defined Benefit Plans: Employee Contributions*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[1]
IAS 39 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*[1]
IFRIC 21	*Levies*[1]
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs issued in December 2013[2]
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs issued in December 2013[2]

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[3] Effective for annual periods beginning on or after 1 January 2016
[4] No mandatory effective date yet determined but is available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities-Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Group does not expect that IFRIC 21 will have material financial impact in future financial statements.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated statement of other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The results of associates and joint ventures are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in associates and joint ventures are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose as follows:

Computer equipment	3 to 5 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years
Leasehold improvements	Over the shorter of the lease terms and useful lives

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Property under construction or development for future use as an investment property is classified as investment property under construction. If the fair value cannot be reliably determined, the investment property under construction will be measured at cost until such time as fair value can be determined or construction is completed.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

When the Group completes the construction or development of a self-constructed investment property, any difference between the fair value of the property at the completion date and its previous carrying amount is recognised in the statement of profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Trademarks, licences and software

Purchased trademarks, licences and software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of two to ten years.

Music copyrights

Music copyrights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of three years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables (continued)

Preferred shares held by the Group are separately presented as a debt portion and conversion option embedded in preferred shares. On initial recognition, the debt portion represents the residual between the fair value of the preferred shares and the fair value of the embedded conversion option. The debt portion is classified as loans and receivables and is subsequently measured at amortised cost using the effective interest method.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired, or

- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable, other payables and accruals and interest-bearing bank borrowing.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing bank and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the statement of profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue from the rendering of services is recognised when the related services are provided.

The Group principally derives revenue from selling music content through mobile phones as ringtones, ringback tones and interactive voice response music in the PRC.

These services are predominantly delivered through the platforms of various subsidiaries of China Mobile Communications Corporation (“China Mobile”) and China United Telecommunications Corporation (“China Unicom”). These services are substantially billed on a monthly subscription basis with certain portions billed on a per-message basis (the “Mobile and Telecom Service Fees”) and the fees are substantially collected by the subsidiaries of China Mobile and China Unicom on behalf of the Group.

Gross revenue is recognised based on the Mobile and Telecom Service Fees, net of the amount of the uncollectibles.

China Mobile and China Unicom are entitled to commissions, which are calculated based on agreed percentages of the Mobile and Telecom Service Fees received or receivable by these mobile operators. In addition, in certain cases, the two mobile operators charge a network usage fee based on a fixed per-message fee multiplied by the excess of messages sent over messages received between the platforms of the Group and these two mobile operators. These commissions and network usage fees (collectively referred to as the “Mobile and Telecom Charges”) are retained by the mobile operators, and are reflected as costs of services provided in the consolidated statement of profit or loss of the Group. The Mobile and Telecom Charges are withheld and deducted from the gross Mobile and Telecom Service Fees collected by the two mobile operators from the users, with the net amounts remitted to the Group.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

The Mobile and Telecom Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and/or advised by subsidiaries of China Mobile and China Unicom to the Group on a regular basis. For revenue whose amount is not confirmed/advised by the two mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amount receivable based on historical data, which reflect developing trends in customer payment delinquencies. Historical data used in estimating revenues include the most recent history of the Mobile and Telecom Service Fees actually derived from the operators, the number of subscriptions and the volume of data transmitted between the network gateways of the Group, China Mobile and China Unicom. Adjustments are made in subsequent periods in case the actual revenue amounts are different from the original estimates.

Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date. Employee entitlements to sick and maternity leave are not recognised until the time of leave.

Pension obligations

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 5% of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Equity compensation benefits

The Company operates a Pre-IPO share option scheme, the share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments transaction, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled in employee benefit expense. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the statement of profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension obligations (continued)

Equity compensation benefits (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Shares held for share award scheme

As disclosed in note 32 to the financial statements, the Group has set up a trust for the share award scheme, where the trust purchases shares issued by the Group, the consideration paid by the Company, including any directly attributable incremental costs, is presented as “Shares held for the Share Award Scheme” and deducted from the Group’s equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in RMB, which is the functional and presentation currency of the Company's subsidiaries. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of the Company and certain subsidiaries is Hong Kong dollars ("HK$"). As at the end of the reporting period, the assets and liabilities of the Company and the subsidiaries are translated into the presentation currency of the Group at the exchange rates prevailing at the end of the reporting period and the statements of profit or loss of the Company and the subsidiaries are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and the subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and the subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(i) Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Accounting for companies governed under contractual arrangements as subsidiaries

As further detailed in note 18(a) below, A8 Music Group Limited does not have equity ownership in certain subsidiaries of the Group (collectively "Subsidiaries under Contractual Agreements"). Nevertheless, under the contractual agreements entered into between the Subsidiaries under Contractual Agreements, their respective registered owners and certain subsidiaries of the Group, management has determined that the Group controls the financial and operating policies of the Subsidiaries under Contractual Agreements so as to obtain benefits from their activities. As such, the Subsidiaries under Contractual Agreements and their respective subsidiaries are accounted for as subsidiaries of the Group for accounting purposes.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Deferred tax on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolio and concluded that the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, in determining the Group's deferred tax on investment properties, the directors have determined that the presumption set out in IAS 12 *Income Taxes* that investment properties measured using the fair value model are recovered through sale is rebutted.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(ii) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Recognition of telecommunications value-added services

As mentioned in the "Revenue recognition" section of note 3.3, for the Mobile and Telecom Service Fees not yet confirmed/advised by the mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on historical data and developing trends in customer payment delinquencies.

Fair value of investment properties

Investment properties including completed investment properties and investment properties under construction are revalued at the end of the reporting period on a market value, existing use basis by independent professionally qualified valuers. These valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, information from current prices in an active market for similar properties is considered and assumptions that are mainly based on market conditions existing at the end of the reporting period are used.

5. OPERATING SEGMENT INFORMATION

The directors consider that the Group's activities constitute one operating segment as the Group is principally engaged in providing digital entertainment services including digital music and mobile games. Management makes decisions about resource allocation and performance assessment on a group basis.

Over 90% of the Group's revenue from external customers is derived from the Group's operations in the PRC, and no non-current assets of the Group are located outside the PRC.

Revenue of approximately RMB106,386,000 (2012: RMB200,020,000) and RMB20,476,000 (2012: RMB33,287,000), respectively, were derived from providing mobile value-added services through mobile phones to the two largest customers.

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value and estimated value of services rendered.

An analysis of revenue, other income and gains, net, is as follows:

	2013 RMB'000	2012 RMB'000
Revenue		
Ringback tone services	86,094	192,412
Other music related services	43,223	33,193
Games	37,177	29,441
Other entertainment services	23,242	90,047
	189,736	345,093
Less: Business tax	(2,237)	(5,717)
Net revenue	187,499	339,376
Other income and gains, net		
Bank interest income	15,474	14,414
Imputed interest income	4,741	215
Government grant released (note)	–	2,613
Gain on disposal of a subsidiary (note 34)	256	–
Gain on disposal of items of property, plant and equipment	–	6
Fair value gains on investments at fair value through profit or loss	–	598
Fair value gains on investment properties	90,158	–
Fair value gain on conversion option embedded in preferred shares	415	1,575
Foreign exchange differences, net	–	191
Others	376	158
	111,420	19,770

Note:

In 2012, a government grant was received by the Group for developing high and new technology industry in Shenzhen in relation to Shenzhen's government policy. There are no unfulfilled conditions or contingencies relating to this grant.

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	2013 RMB'000	2012 RMB'000
Depreciation	1,439	1,454
Amortisation of intangible assets#	9,288	8,579
Amortisation of prepaid land lease payments#	585	585
Operating lease rentals in respect of office buildings	6,262	7,373
Auditors' remuneration	1,356	1,367
Employee benefit expense (including directors' remuneration (note 9)):		
Wages, salaries and bonuses	34,110	39,195
Welfare, medical and other expenses	4,544	4,307
Contributions to social security plans	5,579	5,373
Equity-settled share option expense	968	1,569
Equity-settled share award expense	587	2,650
	45,788	53,094
Impairment of accounts receivable**	132	1,184
Write-back of impairment of accounts receivable**	(1,545)	–
Impairment of other receivables**	–	820
Impairment of an intangible asset**	12,889	–
Foreign exchange differences, net**	2,528	(191)
Mobile and Telecom Charges*	78,246	137,586
Loss/(gain) of disposal of items of property, plant and equipment**/***	34	(6)
Loss on disposal of investments at fair value through profit or loss**	1,084	555
Fair value losses/(gains) on investments at fair value through profit or loss**/***	55	(598)

Included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

* Included in "Cost of services provided" on the face of the consolidated statement of profit or loss.

** Included in "Other expenses, net" on the face of the consolidated statement of profit or loss.

*** Included in "Other income and gains, net" on the face of the consolidated statement of profit or loss.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Interest on bank loan	**1,254**	2,390
Less: Interest capitalised	**(1,254)**	(2,390)
	–	–

9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

	2013	2012
	RMB'000	RMB'000
Fees	**281**	275
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**1,811**	2,329
Share-based payments	**635**	738
Pension scheme contributions	**110**	94
	2,556	3,161
	2,837	3,436

During the prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company. The fair value of these options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current and prior years is included in the above directors' remuneration disclosures.

Further details are set out in note 31 to the financial statements.

9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' remuneration (continued)

(i) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

2013

	Fees RMB'000	Bonuses RMB'000	Total remuneration RMB'000
Independent non-executive directors:			
Mr. Chan Yiu Kong	144	–	144
Mr. Song Ke*	42	–	42
Mr. Zeng Liqing#	23	–	23
Ms. Wu Shihong	72	–	72
	281	–	281

2012

	Fees RMB'000	Bonuses RMB'000	Total remuneration RMB'000
Independent non-executive directors:			
Mr. Hui, Harry Chi@	16	–	16
Mr. Chan Yiu Kong	146	–	146
Mr. Zeng Liqing#	57	–	57
Ms. Wu Shihong^	56	–	56
	275	–	275

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil).

* Appointed as independent non-executive director on 30 May 2013.

\# Resigned as independent non-executive director on 30 May 2013.

^ Appointed as independent non-executive director on 27 March 2012.

@ Resigned as independent non-executive director on 27 March 2012.

9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' remuneration (continued)

(ii) Executive directors and non-executive directors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2013					
Executive directors:					
Mr. Liu Xiaosong ("Mr. Liu")*	–	893	–	49	942
Mr. Lu Bin	–	918	635	61	1,614
	–	1,811	635	110	2,556
2012					
Executive directors:					
Mr. Liu	–	1,279	40	39	1,358
Mr. Lu Bin	–	1,050	698	55	1,803
	–	2,329	738	94	3,161
Non-executive director:					
Mr. Li Wei#	–	–	–	–	–
	–	2,329	738	94	3,161

* Mr. Liu is also the chief executive of the Company.

Resigned as non-executive director on 27 March 2012.

9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals

The five highest paid individuals included two (2012: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2012: three) non-director, highest paid individuals for the year are as follows:

	2013 RMB'000	2012 RMB'000
Salaries, bonuses, allowances and benefits in kind	2,442	2,230
Equity-settled share option expense	216	208
Equity-settled share award expense	382	243
Pension scheme contributions	218	214
	3,258	2,895

The number of non-director, highest paid individuals whose remuneration fell within the following bands is as follows:

	Number of employees	
	2013	2012
Nil to HK$1,000,000	1	2
HK$1,000,001 to HK$2,000,000	2	1
	3	3

(c) During the year, no emoluments were paid by the Group to the directors, or any of the non-director, highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office nor has any director or non-director, highest paid individual waived or agreed to waive any emoluments.

10. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2012: Nil). The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing rates in the jurisdictions in which the subsidiaries operate.

An analysis of the income tax charges for the year is as follows:

	2013 RMB'000	2012 RMB'000
Group		
Current-PRC		
Charge for the year	873	975
Underprovision/(overprovision) in prior years	325	(787)
Deferred (note 28)	11,549	3,140
Total tax charge for the year	12,747	3,328

The 5th Session of the 10th National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New Corporate Income Tax Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations (the "DIR") on 6 December 2007, which became effective from 1 January 2008. According to the New Corporate Income Tax Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008. However, for enterprises which were established before the publication of the New Corporate Income Tax Law and were entitled to preferential treatments of reduced corporate income tax rates granted by the relevant tax authorities, the new corporate income tax rate may be gradually increased to 25% within five years after the effective date of the New Corporate Income Tax Law. For regions that enjoy a reduced corporate income tax rate at 15%, the corporate income tax rate will gradually increase to 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 according to grandfathering rules stipulated in the DIR and related circular. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. ("Yuesheng Feiyang") and Shenzhen Huadong Feitian Technology Co., Ltd. ("Huadong Feitian") were subject to a preferential tax rate of 15% as they were recognised as high technology enterprises for the year ended 31 December 2013.

Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("Yunhai Qingtian") was recognised as a newly set-up software production enterprise in 2010 and was therefore entitled to full exemption from income tax for two years starting from the first profitable year which was the year ended 31 December 2010 and a 50% tax relief for the three years thereafter.

10. INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense applicable to profit/(loss) before tax at the statutory rates for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	2013					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit before tax	4,015		17,205		21,220	
Tax at the statutory tax rate	662	16.5	4,309	25.0	4,971	23.4
Preferential tax rates	–	–	(6,320)	(36.7)	(6,320)	(29.8)
Super-deduction of research and development expenditure	–	–	(490)	(2.8)	(490)	(2.3)
Adjustments in respect of current tax of previous periods	–	–	325	1.9	325	1.5
Income not subject to tax	(1,040)	(25.9)	(5)	–	(1,045)	(4.9)
Expenses not deductible for tax	378	9.4	4,205	24.4	4,583	21.6
Losses attributable to a joint venture and associates	–	–	8,008	46.5	8,008	37.8
Tax losses not recognised	–	–	2,715	15.8	2,715	12.8
Tax charge at the Group's effective rate	–	–	12,747	74.1	12,747	60.1

	2012					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Loss before tax	(733)		(25,951)		(26,684)	
Tax at the statutory tax rate	(121)	16.5	(6,488)	25.0	(6,609)	24.8
Preferential tax rates	–	–	(439)	1.7	(439)	1.6
Super-deduction of research and development expenditure	–	–	(921)	3.5	(921)	3.5
Adjustments in respect of current tax of previous periods	–	–	(787)	3.0	(787)	2.9
Income not subject to tax	(273)	37.2	(9)	–	(282)	1.1
Expenses not deductible for tax	394	(53.7)	5,028	(19.4)	5,422	(20.3)
Losses attributable to a joint venture and associates	–	–	4,900	(18.9)	4,900	(18.4)
Tax losses utilised from previous periods	–	–	(24)	0.1	(24)	0.1
Tax losses not recognised	–	–	2,068	(8.0)	2,068	(7.7)
Tax charge at the Group's effective rate	–	–	3,328	(13.0)	3,328	(12.4)

11. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit/(loss) attributable to owners of the Company for the year ended 31 December 2013 includes a loss of RMB4,760,000 (2012: RMB1,801,000) which has been dealt with in the financial statements of the Company (note 33(b)).

12. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2013 (2012: Nil).

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings/(loss) per share amount for the year ended 31 December 2013 is based on the profit for the year attributable to equity holders of the Company of RMB9,820,000 (2012: loss of RMB29,868,000), and the weighted average number of ordinary shares in issue less shares held under the share award scheme during the year of 1,219,482,000 (2012: 612,801,000), as adjusted to reflect the rights issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amount presented for the years ended 31 December 2013 and 2012 in respect of a dilution as the impact of the share options outstanding and the awarded shares had an anti-dilutive effect on the basic earnings/(loss) per share amount presented.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013						
At 31 December 2012 and at 1 January 2013:						
Cost	10,227	1,334	2,114	4,110	131,628	149,413
Accumulated depreciation	(6,694)	(1,334)	(1,926)	(3,939)	–	(13,893)
Net carrying amount	3,533	–	188	171	131,628	135,520
At 1 January 2013, net of accumulated depreciation	3,533	–	188	171	131,628	135,520
Additions	847	2,497	–	–	104,174	107,518
Disposals	(384)	(80)	–	–	–	(464)
Depreciation provided during the year	(1,267)	(35)	(130)	(7)	–	(1,439)
Transfer to investment properties (note 15)	–	–	–	–	(108,572)	(108,572)
At 31 December 2013, net of accumulated depreciation	2,729	2,382	58	164	127,230	132,563
At 31 December 2013:						
Cost	10,204	2,666	2,114	4,110	127,230	146,324
Accumulated depreciation	(7,475)	(284)	(2,056)	(3,946)	–	(13,761)
Net carrying amount	2,729	2,382	58	164	127,230	132,563

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
At 1 January 2012:						
Cost	11,520	1,452	2,094	4,010	55,817	74,893
Accumulated depreciation	(7,040)	(1,452)	(2,088)	(3,804)	–	(14,384)
Net carrying amount	4,480	–	6	206	55,817	60,509
At 1 January 2012, net of accumulated depreciation	4,480	–	6	206	55,817	60,509
Additions	763	73	348	100	75,811	77,095
Disposals	(558)	(56)	(16)	–	–	(630)
Depreciation provided during the year	(1,152)	(17)	(150)	(135)	–	(1,454)
At 31 December 2012, net of accumulated depreciation	3,533	–	188	171	131,628	135,520
At 31 December 2012:						
Cost	10,227	1,334	2,114	4,110	131,628	149,413
Accumulated depreciation	(6,694)	(1,334)	(1,926)	(3,939)	–	(13,893)
Net carrying amount	3,533	–	188	171	131,628	135,520

15. INVESTMENT PROPERTIES

	Group 2013 RMB'000	2012 RMB'000
Under construction		
Carrying amount at 1 January	–	–
Transfer from property, plant and equipment (note 14)	108,572	–
Transfer from prepaid land lease payments (note 16)	12,070	–
Fair value gain on investment properties	90,158	–
Carrying amount at 31 December	210,800	–

The Group's investment properties under construction are situated in Mainland China and are held under medium term leases.

The Group's investment properties under construction were revalued on 31 December 2013 based on valuation performed by Asset Appraisal Limited, independent professionally qualified valuers.

The valuations of investment properties under construction were based on the residual approach, and have taken into account the expended construction costs and the costs that will be expended to complete the development to reflect the quality of the completed development on the basis that the properties will be developed and completed in accordance with the Group's latest development plan.

Each year, the Group's management decides to appoint which external valuer to be responsible for the external valuation of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's management has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2013 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Office	–	–	210,800	210,800

15. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range (weighted average)
Office	Residual approach (refer above)	Estimated rental value (per sq.m.)	RMB79
		Rental growth rate (p.a.)	5.0%
		Discount rate	9.85%

A significant increase/(decrease) in the estimated rental value per square meter and the rental growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rental growth rate per annum and the discount rate.

16. PREPAID LAND LEASE PAYMENTS

	Group 2013 RMB'000	2012 RMB'000
Carrying amount at 1 January	**26,825**	27,410
Recognised during the year	**(585)**	(585)
Transfer to investment properties (note 15)	**(12,070)**	–
Carrying amount at 31 December	**14,170**	26,825
Current portion included in prepayments, deposits and other receivables (note 22)	**(315)**	(585)
Non-current portion	**13,855**	26,240

The leasehold land is situated in Mainland China and is held under a medium term lease.

As at 31 December 2012, the leasehold land was pledged as security for the bank loan granted to the Group (note 27(a)).

17. INTANGIBLE ASSETS

Group

	Trademarks, licenses and software RMB'000	Music copyrights RMB'000	Total RMB'000
31 December 2013			
Cost at 1 January 2013, net of accumulated amortisation	**23,917**	**5,160**	**29,077**
Additions	**24**	**569**	**593**
Amortisation provided during the year	**(6,929)**	**(2,359)**	**(9,288)**
Disposal of a subsidiary (note 34)	**(694)**	**–**	**(694)**
Impairment during the year (note)	**(12,889)**	**–**	**(12,889)**
At 31 December 2013	**3,429**	**3,370**	**6,799**
At 31 December 2013:			
Cost	**41,236**	**7,180**	**48,416**
Accumulated amortisation and impairment	**(37,807)**	**(3,810)**	**(41,617)**
Net carrying amount	**3,429**	**3,370**	**6,799**
31 December 2012			
Cost at 1 January 2012, net of accumulated amortisation	29,115	1,740	30,855
Additions	2,128	4,673	6,801
Amortisation provided during the year	(7,326)	(1,253)	(8,579)
At 31 December 2012	23,917	5,160	29,077
At 31 December 2012:			
Cost	41,906	6,611	48,517
Accumulated amortisation	(17,989)	(1,451)	(19,440)
Net carrying amount	23,917	5,160	29,077

Note:

An impairment was recognised for a music software with a net carrying amount of RMB12,889,000 which is considered to be not recoverable based on value in use due to the postponement of the mobile music downloading charge in mid-2013, the high music copyright costs, and the significant change in mobile music business model in 2013 from charge on music downloading service to mobile music entertainment or music value-added services. As the music software was tailor-made primarily for old version of operating system-supported mobile internet application for music downloading when developed in 2011 without functions for any value-added services, the significant change in the mobile music business model in 2013 would require an entire upgrade of the music software from pure music downloading platform to music entertainment platform which is estimated to be costly by management. Besides, through investment in Duomi Music Holding Limited ("Duomi Music"), the Group can enjoy the benefit from the rapid growth of mobile music market in China. As such, management considered it is not commercially viable for the Group to continue to develop and upgrade the music software based on the current business trend in mobile music market in China, and hence, the recoverable amount is nil as at 31 December 2013.

18. INVESTMENTS IN SUBSIDIARIES

	Company 2013 RMB'000	2012 RMB'000
Unlisted shares, at cost	**74,333**	74,333
Capital contribution in respect of share-based compensation	**28,972**	27,417
	103,305	101,750

The amounts due from subsidiaries, included in the Company's current assets, are unsecured, interest-free and have no fixed terms of repayment.

(a) Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company Direct	Indirect	Principal activities
A8 Music Group Limited ("A8 Music") (note (ii))	British Virgin Islands	Ordinary shares US$64,500 Preferred shares US$9,300	100	–	Investment holding
佳仕域信息科技(深圳)有限公司 Cash River Information Technology (Shenzhen) Co., Ltd. (note (ii))*#	PRC	HK$40,000,000 Registered capital	–	100	Development of computer software and provision of technical and management consultancy services
深圳市華動飛天網絡技術開發有限公司 Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian") (notes (i) and (ii))*@	PRC	RMB28,680,000 Registered capital	–	100	Provision of telecommunications instant messaging and value-added services
深圳市雲海情天文化傳播有限公司 Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. (notes (i) and (ii))*@	PRC	RMB10,000,000 Registered capital	–	100	Development of computer software and provision of technical and management consultancy services

18. INVESTMENTS IN SUBSIDIARIES (continued)

(a) Particulars of the subsidiaries are as follows: (continued)

Company name	Place of incorporation/ establishment	Paid-up issued/ registered capital	Percentage of equity/ interest attributable to the Company Direct	Indirect	Principal activities
深圳市快通聯科技有限公司 Shenzhen Kuaitonglian Technology Co., Ltd. (notes (i) and (ii))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京創盟音樂文化發展有限公司 Beijing Chuangmeng Yinyue Culture Development Co., Ltd. (notes (i) and (ii))*@	PRC	RMB5,000,000 Registered capital	–	100	Provision of mobile value-added services
北京愛樂空間文化傳播有限公司 Beijing Aiyue Cultural Broadcasting Co., Ltd. (notes (i) and (ii))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京樂聲飛揚音樂文化傳播有限公司 Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. (notes (i) and (ii))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京天籟印象文化傳播有限公司 Beijing Tianlai Cultural Broadcasting Co., Ltd. ("Tianlai") (notes (i) and (ii))*@	PRC	RMB20,000,000 Registered capital	–	100	Provision of mobile value-added services
江蘇廣視科貿發展有限公司 Jiangsu Guangshi Science and Trade Development Limited (notes (i) and (ii))*@	PRC	RMB10,070,000 Registered capital	–	100	Provision of mobile value-added services
福州卓龍天訊信息技術有限公司 Fuzhou Zhuolong Tianxiu Information Technology Ltd. (notes (i) and (ii))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京樂音無限文化傳播有限公司 Beijing Yueyin Wuxian Cultural Broadcasting Co., Ltd. (notes (i) and (ii))*@	PRC	RMB1,000,000 Registered capital	–	100	Provision of mobile value-added services

18. INVESTMENTS IN SUBSIDIARIES (continued)

(a) Particulars of the subsidiaries are as follows: (continued)

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company Direct	Indirect	Principal activities
普好有限公司 Total Plus Limited	Hong Kong	HK$97,045 Issued capital	–	100	Investment holding
北京布拉琪音樂文化傳媒有限公司 Beijing Bulaqi Music Cultural Broadcasting Co., Ltd. (notes (i) and (ii))*@	PRC	RMB1,000,000 Registered capital	–	100	Holding of music patents and licenses
北京掌中地帶信息科技有限公司 Beijing Zhangzhong Didai Information Technology Ltd. (notes (i) and (ii))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京環宇信誠軟件開發有限公司 Beijing Huanyu Xincheng Software Development Co., Ltd. ("Huanyu Xincheng") (note (ii))*#	PRC	RMB10,000,000 Registered capital	–	100	Dormant
深圳市掌翼天下有限公司 Shenzhen Zhangyi Tianxia Development Co., Ltd. (notes (i) and (ii))*@	PRC	RMB3,000,000 Registered capital	–	100	Development of home wireless music system
茂御有限公司 Phoenix Success Limited ("Phoenix Success")	Hong Kong	HK$1 Issued capital	100	–	Investment holding
北京悦音經典網絡科技有限公司 Beijing Yueyin Jingdian Network Technology Co., Ltd. (notes (i) and (ii))*@	PRC	RMB1,000,000 Registered capital	–	75	Provision of mobile value-added services
深圳市飛樂物業服務有限公司 Shenzhen Feiyue Wuye Management Services Co., Ltd. (notes (i) and (ii))*@	PRC	RMB500,000 Registered capital	100	–	Dormant

18. INVESTMENTS IN SUBSIDIARIES (continued)

(a) Particulars of the subsidiaries are as follows: (continued)

* The English names of these companies are the direct translations of their Chinese names, as no English names have been registered or are available.

Registered as a wholly-foreign-owned enterprise under PRC law.

@ Registered as domestic limited liability companies under PRC law.

Notes:

(i) The current PRC laws and regulations limit the provision of telecommunications value-added services by companies with foreign ownership, which include activities and services operated by these companies. In order to enable the Company to make investment in the telecommunications value-added services in the PRC, the equity interests of these companies are held by individual nominees on behalf of the Group and certain contractual agreements have been effectuated among these companies, their respective registered owners and Cash River, Huadong Feitian or Tianlai to the effect that the operating and financial decisions of these companies are effectively controlled by the Company.

As a result of the contractual agreements, these companies are accounted for as subsidiaries of the Company for accounting purposes.

(ii) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(b) Controlled special purpose entity

The Company has set up a trust, A8 Digital Music share award trust (the "Trust"), for the purpose of administering the share award scheme established by the Company (note 32). In accordance with IFRS 10 "Consolidated Financial Statements", the Company is required to consolidate the Trust as the Company has the power to govern the financial and operating policies of the Trust and can derive benefits from the contributions of employees who have been awarded the shares through their employment with the Group.

Special purpose entity	Place of incorporation	Principal activities
Law Debenture (Asia) Trust Limited-A8 Digital Music	Hong Kong	Administration and holding of the Company's shares for the share award scheme for the benefit of eligible employees

19. INVESTMENTS IN ASSOCIATES

	Group 2013 RMB'000	2012 RMB'000
Share of net assets	**676**	1,009
Goodwill on acquisition	**2,642**	2,642
	3,318	3,651

In the opinion of the directors, the debt portion of preferred shares is considered as quasi-equity investments in the associate.

Particulars of the Group's associates are as follows:

Company name	Particulars of registered capital	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Shenzhen Ningmenghai Technology Co., Ltd. ("Ningmenghai") (note (i) and (ii))*#	RMB5,000,000	PRC	19.34%	Provision of internet social network service
Duomi Music Holding Limited (note (ii))*	USD50,000	Cayman Islands/ PRC	42.69%	Provision of online and connected digital music service

Notes:

(i) As at 31 December 2013, the Group owned a 19.34% equity interest in Ningmenghai (2012: 19.34%). Although the Group holds less than 20% of the equity interest in Ningmenghai, in the opinion of the Company's directors, the Group is in a position to exercise significant influence over Ningmenghai having considered the prevailing widely dispersed shareholding structure of Ningmenghai.

(ii) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

* The above investments in associates are indirectly held by the Company.

\# The English name of the company represents the best effort made by management of the Company to directly translate its Chinese name as it did not register any official English name.

19. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material. The Group did not have any individually material associates for each of the reporting periods.

	2013 RMB'000	2012 RMB'000
Share of the associates' loss for the year	**(31,964)**	(19,526)
Share of the associates' total comprehensive loss	**(31,964)**	(19,526)
Aggregate carrying amount of the Group's investments in the associates	**3,318**	3,651

The Group has discontinued the recognition of its share of losses of an associate, Duomi Music, because the share of losses of the associate exceeded the Group's interest in the associate and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this associate for the current year and cumulatively were RMB1,536,000 (2012: RMB9,330,000) and RMB10,866,000 (2012: RMB9,330,000), respectively.

20. INVESTMENT IN A JOINT VENTURE

	Group 2013 RMB'000	 2012 RMB'000
Share of net assets	**–**	67
Goodwill on acquisition	**3,360**	3,360
	3,360	3,427

Particulars of the Group's joint venture are as follows:

Name	Particulars of issued shares held	Place of registration and business	Percentage of ownership interest	Principal activity
Nanjing Utooo Information Technology Co., Ltd. ("Utooo")	Registered and paid-up capital of RMB1,059,000	PRC	15%*	Mobile phone games provider

The above investment was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

20. INVESTMENT IN A JOINT VENTURE (continued)

The English name of the company represents the best effort made by management of the Company to directly translate its Chinese name as it did not register any official English name.

* Notwithstanding that the Group owned a 15% equity interest in Utooo, in the opinion of the Company's directors, the Group is in a position to have joint control over Utooo having considered that the other shareholders have contractually agreed the sharing of control over the key financial and operating activities of Utooo with the Group.

The following table illustrates the financial information of the Group's joint venture that is not material. The Group did not have any material joint venture for each of the reporting periods.

	2013 RMB'000	2012 RMB'000
Share of the joint venture's loss for the year	(67)	(73)
Share of the joint venture's total comprehensive loss	(67)	(73)
Carrying amount of the Group's investment in the joint venture	3,360	3,427

The Group has discontinued the recognition of its share of losses of a joint venture, Utooo, because the share of losses of the joint venture exceeded the Group's interest in the joint venture and the Group has no obligation to take up further losses. The amounts of the Group's unrecognised share of losses of this joint venture for the current year and cumulatively were RMB2,000 (2012: Nil) and RMB2,000 (2012: Nil), respectively.

21. ACCOUNTS RECEIVABLE

	Group	
	2013 RMB'000	2012 RMB'000
Accounts receivable	53,311	56,683
Impairment	(2,170)	(3,583)
	51,141	53,100

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to it within a period of 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable. Accounts receivable are non-interest-bearing.

21. ACCOUNTS RECEIVABLE (continued)

An aged analysis of the accounts receivable as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Neither past due nor impaired:		
Within 1 month	**15,338**	14,053
Over 1 month but less than 2 months	**13,721**	8,315
Over 2 months but less than 3 months	**3,692**	9,112
Over 3 months but less than 4 months	**2,861**	5,171
Past due but not impaired:		
4 to 6 months	**4,361**	9,328
Over 6 months	**11,168**	7,121
	51,141	53,100

The movements in provision for impairment of accounts receivable are as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**3,583**	2,399
Impairment losses recognised (note 7)	**132**	1,184
Write-back of impairment (note 7)	**(1,545)**	–
At 31 December	**2,170**	3,583

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2013	2012
	RMB'000	RMB'000
Prepayments	**11,340**	8,532
Prepaid land lease payments (note 16)	**315**	585
Deposits and other receivables	**10,912**	15,644
Impairment	**(3,486)**	(3,486)
	19,081	21,275

The financial assets as at the end of the reporting period relate to receivables for which there was no recent history of default. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the other receivables is an amount due from the Group's associate of RMB663,000 (2012: Nil), which is unsecured, interest-free and repayable on demand.

The movements in the provision for other receivables are as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
At 1 January	**3,486**	2,666
Impairment losses recognised (note 7)	**–**	820
At 31 December	**3,486**	3,486

Included in the above provision for other receivables is a provision for individually impaired receivables of RMB3,486,000 (2012: RMB3,486,000) with a gross carrying amount of RMB3,486,000 (2012: RMB3,486,000). The individually impaired receivables relate to a portion of the receivables that is not expected to be recovered.

23. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2013	2012
	RMB'000	RMB'000
Listed equity investments in Mainland China, at fair value	**316**	371
Unlisted investments, at fair value	**10,000**	1,000
	10,316	1,371

The above listed equity investments were upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss and are stated at fair value.

The Group's unlisted investments represent fund investments and the fair values were based on value quoted by the relevant financial institutions.

24. CASH AND CASH EQUIVALENTS

	Group 2013 RMB'000	Group 2012 RMB'000	Company 2013 RMB'000	Company 2012 RMB'000
Cash and bank balances	**353,777**	196,979	**5,093**	13,525
Time deposits	**111,856**	188,841	**–**	–
	465,633	385,820	**5,093**	13,525
Less: Restricted cash	**(16,476)**	(2,940)	**–**	–
Time deposits with original maturity of more than three months	**–**	(8,318)	**–**	–
Cash and cash equivalents	**449,157**	374,562	**5,093**	13,525
Denominated in RMB	**333,292**	325,024	**4**	4
Denominated in other currencies	**115,865**	49,538	**5,089**	13,521
Cash and cash equivalents	**449,157**	374,562	**5,093**	13,525

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB are not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made with maturity of not more than three months and earn interest at the respective short term time deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

25. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of the reporting period, based on the invoice date, is as follows:

	Group 2013 RMB'000	Group 2012 RMB'000
Within 1 month	**7,381**	4,877
1 to 3 months	**7,597**	9,170
4 to 6 months	**2,616**	4,620
Over 6 months	**11,373**	11,595
	28,967	30,262

The accounts payable are non-interest-bearing and are normally settled on 30-day to 180-day terms.

26. OTHER PAYABLES AND ACCRUALS

	Group 2013 RMB'000	2012 RMB'000
Other payables	**46,084**	38,189
Accruals	**34,042**	40,907
	80,126	79,096

27. INTEREST-BEARING BANK BORROWING

Group

	2013 Effective interest rate (%)	2013 Maturity	2013 RMB'000	2012 Effective interest rate (%)	2012 Maturity	2012 RMB'000
Non-current						
Bank loan-secured	–	–	–	6.55%	2014-2015	69,567

	Group 2013 RMB'000	2012 RMB'000
Analysed into:		
Bank loan repayable:		
In the second year	–	24,000
In the third to fifth years, inclusive	–	45,567
	–	69,567

Notes:

(a) As at 31 December 2012, the Group's bank loan was secured by the pledge of the Group's leasehold land situated in Mainland China, which had a carrying value of approximately RMB26,825,000 (note 16).

(b) As at 31 December 2012, the Group's entire bank borrowing was guaranteed by a subsidiary.

(c) The Group's bank borrowing was denominated in RMB.

28. DEFERRED TAX

The movements in deferred tax assets/(liabilities) during the year are as follows:

Group

	Deductible temporary differences RMB'000	Transfer of profit derived from contractual agreements RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Fair value gain on investments at fair value through profit or loss RMB'000	Revaluation of investment properties RMB'000	Total RMB'000
At 1 January 2012	4,594	(813)	(653)	(177)	–	2,951
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	(3,401)	–	261	–	–	(3,140)
At 31 December 2012 and 1 January 2013	1,193	(813)	(392)	(177)	–	(189)
Deferred tax credited/(charged) to the statement of profit or loss during the year (note 10)	1,713	–	261	–	(13,523)	(11,549)
At 31 December 2013	2,906	(813)	(131)	(177)	(13,523)	(11,738)

The Group has tax losses arising in Mainland China of RMB22,968,000 (2012: RMB12,108,000) that will expire in one to five years for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2013, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB282,599,000 at 31 December 2013 (2012: RMB280,065,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. DEBT PORTION OF PREFERRED SHARES AND CONVERSION OPTION EMBEDDED IN PREFERRED SHARES

On 14 December 2012 (the "Completion Date"), Phoenix Success subscribed for 13,853,868 convertible redeemable preferred shares (the "preferred shares") at US$0.43 each for cash issued by Duomi Music. All the above preferred shares can be converted into ordinary shares at US$0.43 per share (subject to adjustments). The major terms of the preferred shares are set out below:

(i) Phoenix Success has the option to request all (but not less than all) the preferred shares it holds to be converted at any time, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares in Duomi Music.

(ii) From the beginning of the fourth anniversary of the Completion Date, Phoenix Success has the right to request Duomi Music to redeem all (but not less than all) of the preferred shares held by Phoenix Success for a redemption price per share equal to 140% of the subscription price of the preferred shares plus all accrued but unpaid dividends (subject to adjustment).

The Group classified the debt portion of the preferred shares in Duomi Music as loans and receivables and the conversion option embedded in preferred shares is deemed as held for trading and recognised at fair value through profit or loss on initial recognition with changes in fair value recognised in profit or loss subsequently. In the opinion of the directors, the debt portion of preferred shares is considered as part of the Group's investment in Duomi Music. As such, the debt portion was used to cover the share of loss of Duomi Music in 2013. The fair values of the conversion option embedded in preferred shares on initial recognition and at the end of the reporting period are determined by the directors of the Company with reference to the valuation performed by independent qualified valuers, Grant Sherman Appraisal Limited. Details of the method and assumptions used in the Binomial Pricing Model in the valuation of the conversion option embedded in the preferred shares are as follows:

	31 December 2013	31 December 2012
Expected volatility (i)	**43.37%**	53.45%
Dividend yield	**–**	–
Option life (year(s))	**3.96**	4.96
Risk-free interest rate (ii)	**1.22%**	0.65%

Notes:

(i) Expected volatility was calculated by reference to annualised standard deviation of the continuously compounded rates of return on the weekly average adjusted share price of the comparable companies.

(ii) Risk-free interest rate was used by reference to the United States Treasury Bond Rate with similar maturity at the valuation date.

Generally, a change in the assumption made for the expected volatility is accompanied by a directionally similar change in the dividend yield and the option life and an opposite change in the risk-free interest rate.

29. DEBT PORTION OF PREFERRED SHARES AND CONVERSION OPTION EMBEDDED IN PREFERRED SHARES (continued)

The following table demonstrates the sensitivity of the Group's profit/(loss) before tax at the end of 31 December 2013 and 2012 to a reasonably possible change in combined net effect of the dividend yield, risk-free interest rate and stock volatility of comparable companies (collectively the "Combined factors").

	Increase/ (decrease) in percentage	Combined net effect on profit before tax RMB'000
31 December 2013		
Combined factors	**10**	**273**
Combined factors	**(10)**	**(315)**

	Increase/ (decrease) in percentage	Combined net effect on loss before tax RMB'000
31 December 2012		
Combined factors	10	(1,273)
Combined factors	(10)	1,320

The fair value of each underlying share of Duomi Music is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a weighted average cost of capital of 22.7% and 19.88% were used as at 31 December 2013 and 31 December 2012, respectively.

The effective interest rate of the debt portion of the preferred shares is 17.80% per annum.

30. SHARE CAPITAL

Shares

	2013 **RMB'000**	2012 RMB'000
Authorised:		
3,000,000,000 (2012: 3,000,000,000) ordinary shares of HK$0.01 each	**26,513**	26,513
Issued and fully paid:		
1,428,847,128 (2012: 476,282,376) ordinary shares of HK$0.01 each	**11,914**	4,203

A summary of the transactions in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	**Nominal value of ordinary shares** HK$'000	**Share premium account** HK$'000	**Equivalent nominal value of ordinary shares** RMB'000	**Equivalent share premium account** RMB'000	**Total** RMB'000
As at 1 January 2012	475,976,496	4,761	209,458	4,201	184,959	189,160
Exercise of share options	305,880	4	583	2	475	477
As at 31 December 2012 and 1 January 2013	476,282,376	4,765	210,041	4,203	185,434	189,637
Rights issue	952,564,752	9,525	333,398	7,711	269,904	277,615
Share issue expenses	–	–	(5,734)	–	(4,568)	(4,568)
As at 31 December 2013	1,428,847,128	14,290	537,705	11,914	450,770	462,684

During the year, a rights issue of two rights shares for every existing share held by members on the register of members on 27 February 2013 was made, at an issue price of HK$0.36 per rights share, resulting in the issue of 952,564,752 shares of HK$0.01 each for a total cash consideration, before expenses, of HK$342,923,000 (equivalent to RMB277,615,000).

During the prior year, a total of 305,880 share options under the Pre-IPO share option scheme were exercised at exercise prices ranging from HK$0.52 to HK$0.74 per share, for a total cash consideration, before expenses, of HK$197,000 (equivalent to RMB160,000).

31. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

The Pre-IPO share option scheme was adopted by the Company to recognise and reward the past contribution of the employees of the Group and individuals or entities who have, in the opinion of the board of directors, contributed or will contribute to the growth and development of the Group (the "Eligible Participants"). The maximum number of shares which may be issued upon exercise of all options that can be granted under the Pre-IPO share option scheme is 18,702,400 shares. On 21 May 2008, share options to subscribe 18,702,400 shares were issued to 56 Eligible Participants with a minimum vesting period of three years and a maximum exercise period of four years. The exercise price ranges from HK$0.16 to HK$0.91 per share. No further share options under the Pre-IPO share option scheme have been granted since the listing of the shares of the Company on 26 May 2008 and no share options under the Pre-IPO share option scheme are exercisable within the first six months from 12 June 2008.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Pre-IPO share option scheme during the year:

	2013		2012	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	–	–	0.65	340
Forfeited during the year	–	–	0.74	(34)
Exercised during the year	–	–	0.64	(306)
At 31 December		–	–	–

The weighted average share price at the date of exercise for share options exercised during the prior year was HK$0.97 per share.

No share options were outstanding as at 31 December 2013 and 31 December 2012.

(b) Share option scheme

The Company operates a share option scheme for the purpose of motivating eligible persons to optimise their future contribution to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with those eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The share option scheme became effective on 26 May 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

31. SHARE OPTION SCHEMES (continued)

(b) Share option scheme (continued)

The maximum number of shares which may be issued upon exercise of all options that can be granted under the share option scheme and any other schemes of the Group (including the Pre-IPO share option scheme) shall not in aggregate exceed 10% of the shares of the Company in issue when the share option scheme was approved, i.e., 44,052,800 shares.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the share option scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time.

The maximum number of shares issuable under the share options to each eligible participant in the share option scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the share option scheme during the year:

	2013		2012	
	Weighted average exercise price HK$ per share	Number of options '000	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	2.15	9,312	2.15	11,833
Adjustments arising from the rights issue	1.64	2,900	–	–
Forfeiture during the year	1.97	(1,393)	2.14	(2,521)
At 31 December	1.60	10,819	2.15	9,312

31. SHARE OPTION SCHEMES (continued)

(b) Share option scheme (continued)

There was no share options exercised during the current and prior years. The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2013

Number of options '000	**Exercise price*** HK$ per share	**Exercise period**
20	2.440	24-12-2009 to 23-12-2014
999	2.416	5-10-2009 to 4-10-2014
2,889	0.903	15-10-2010 to 14-10-2018
6,386	1.838	25-3-2011 to 24-3-2016
525	0.915	18-8-2011 to 17-8-2016
10,819		

2012

Number of options '000	Exercise price* HK$ per share	Exercise period
108	3.200	24-12-2009 to 23-12-2014
915	3.168	5-10-2009 to 4-10-2014
2,203	1.184	15-10-2010 to 14-10-2018
5,686	2.410	25-3-2011 to 24-3-2016
400	1.200	18-8-2011 to 17-8-2016
9,312		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The Group recognised a share option expense of RMB968,000 (2012: RMB1,569,000) during the year ended 31 December 2013 in respect of the share options granted in the prior years.

31. SHARE OPTION SCHEMES (continued)

(c) Join Reach share option scheme

The Join Reach share option scheme adopted by Join Reach Limited ("Join Reach") was set up by the shareholders of Prime Century Technology Limited ("Prime Century"), which is one of the substantial shareholders of the Company, to recognise and reward the contribution of certain employees of the Company and its subsidiaries who, in the opinion of the board of directors of Join Reach, have contributed or will contribute to the growth and development of the business invested by Prime Century. The Join Reach share option scheme became effective on 26 May 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in Prime Century which may be transferred by Join Reach to the grantees upon the exercise of all options to be granted under the Join Reach share option scheme represent approximately 8.8% of the total issued share capital of Prime Century.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of Join Reach, and commences after a certain vesting period and ends on a date which is not later than four years from the date of offer of the share options or the expiry date of the Join Reach share option scheme, if earlier.

No share options were outstanding as at 31 December 2013 and 31 December 2012. No share option has been granted, exercised, cancelled or lapsed during the years.

At the end of the reporting period, the Company had approximately 10,819,000 share options outstanding under the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 10,819,000 additional ordinary shares of the Company and additional share capital of HK$108,190 and share premium of HK$17,202,210 (before issue expenses).

Subsequent to the end of the reporting period, 2,400,000 share options and 4,048,000 share options under the share option scheme were granted to three employees at an exercise price of HK$0.69 per share and to an executive director and a member of senior management of the Company at an exercise price of HK$0.684 per share, respectively.

Subsequent to the end of the reporting period, an aggregate of 795,000 share options under the share option scheme were lapsed.

At the date of approval of these financial statements, the Company has 16,472,000 share options outstanding under the share option scheme, which represented approximately 1.15% of the Company's shares in issue as at that date.

32. SHARE AWARD SCHEME

On 16 August 2010, the board of directors of the Company (the "Board") approved the establishment of a share award scheme with the objective to recognise the performance of eligible employees within the Group and to retain them for the continued operation and development of the Group and to encourage senior employees to have a direct financial interest in the long term success of the Group. Under the share award scheme, award shares of the Company ("Award Shares") are granted to eligible employees of the Company or any one of its subsidiaries for no consideration but subject to certain considerations (including but not limited to, the lockup period) to be decided by the Board at the time of grant of the award shares under the share award scheme. The share award scheme will remain in force for 10 years from the date of adoption.

32. SHARE AWARD SCHEME (continued)

The share award scheme will operate in parallel with the Company's Pre-IPO share option scheme and share option scheme. All options granted under the Pre-IPO share option scheme and the share option scheme will continue to be valid and exercisable subject to and in accordance with the terms of those schemes.

Pursuant to the rules of the share award scheme, the Company has set up the Trust for the purpose of administering the share award scheme and holding the Award Shares before vested and the expiry of the lock-up period. The Company can (i) make a loan to the Trust from time to time for the purchase of the Award Shares under the loan agreement; (ii) instruct its broker to purchase existing shares in the Company from the market, settle payment and costs and deliver the same to the trustee to hold on trust for the eligible employees; and (iii) allot and issue new shares in the Company to the trustee to hold on trust for the eligible employees.

The maximum number of all Award Shares purchased by the trustee under the share award scheme must not be 10% or more of the issued share capital of the Company as at the adoption date, i.e., 46,084,435 shares, unless the Board otherwise decides.

During the year, a total of 1,135,000 (2012: 2,683,000) shares at a cost of RMB1,313,000 (2012: RMB3,171,000) were vested.

Movements in the number of the Award Shares and their related average fair value are as follows:

	2013		2012	
	Average fair value HK$ per share	**Number of shares '000**	Average fair value HK$ per share	Number of shares '000
At 1 January		**7,340**		10,023
Vested	**1.45**	**(1,135)**	1.45	(2,683)
At 31 December		**6,205**		7,340

Movements in the number of shares held under the share award scheme are as follows:

	2013	2012
	Number of shares held '000	Number of shares held '000
At 1 January	**8,086**	10,769
Purchased during the year	**16,172**	–
Released during the year	**(1,135)**	(2,683)
At 31 December	**23,123**	8,086

33. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 46 to 47 of the financial statements.

(i) Merger reserve

The merger reserve of the Group represents (i) the excess of the nominal value of the paid-up capital of Huadong Feitian over the nominal value of A8 Music's shares which were issued as consideration for obtaining the control of Huadong Feitian at the time of the group reorganisation in 2004; and (ii) the excess of the nominal value of the shares of the Company issued over the nominal value of A8 Music's shares acquired pursuant to the group reorganisation in 2008.

(ii) Surplus contributions

According to an agreement dated 27 December 2004 on the capital contribution into A8 Music's signed by A8 Music, the then three shareholders of A8 Music and the registered owners, the three shareholders of A8 Music agreed to make cash contributions of HK$1,000,000 (equivalent to RMB1,063,000) and RMB10,000,000 into A8 Music without any equity interests issued and issuable to them in return. In addition, A8 Music has no obligations to repay these contributions. As a result, the contributions were reported as surplus contributions of A8 Music.

(iii) PRC statutory reserves

In accordance with the Companies Laws of the PRC and the articles of association of the subsidiaries of the Company which are domestic enterprises established in the PRC, appropriations of their net profits after offsetting accumulated losses from prior years should be made to the statutory surplus reserve fund maintained by these companies before any distributions are made to the investors. The percentage of appropriation to the statutory reserve fund is 10%. When the balance of the statutory reserve fund reaches 50% of the paid-up/registered capital, no further appropriations are required to be made. The statutory reserve fund shall not be less than 25% of the original registered capital.

In accordance with the Law of the PRC for Enterprises with Foreign Investments and the articles of association of a subsidiary of the Company established in the PRC, namely Cash River, appropriations from net profits, after offsetting accumulated losses brought forward from prior years, should be made to the reserve fund before distributions are made to the owners. The percentage of net profits to be appropriated to the reserve fund should not be less than 10% of the net profits. When the balance of the reserve fund reaches 50% of the paid-up capital, no further appropriations are required to be made. Upon approval obtained from the board of directors, the reserve fund can be used to offset accumulated deficits or to increase the registered capital.

33. RESERVES (continued)

(b) Company

	Share premium account RMB'000	Shares held under share award scheme RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2012	193,888	(1,816)	8,969	(2,269)	15,244	2,786	216,802
Total comprehensive loss for the year	–	–	–	(897)	–	(1,801)	(2,698)
Equity-settled share-based payment arrangements	–	–	–	–	4,219	–	4,219
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	(2,198)	2,198	–
Employee share award scheme – release of award shares	–	441	–	–	(441)	–	–
Exercise of share options	475	–	–	–	(324)	–	151
At 31 December 2012 and 1 January 2013	194,363*	(1,375)	8,969*	(3,166)	16,500	3,183*	218,474
Total comprehensive loss for the year	–	–	–	(127)	–	(4,760)	(4,887)
Rights issue	269,904	–	–	–	–	–	269,904
Equity-settled share-based payment arrangements	–	–	–	–	1,555	–	1,555
Share issue expenses	(4,568)	–	–	–	–	–	(4,568)
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	(1,091)	1,091	–
Employee share award scheme – shares purchased for share award scheme	–	(4,712)	–	–	–	–	(4,712)
– release of award shares	–	281	–	–	(281)	–	–
At 31 December 2013	459,699*	(5,806)	8,969*	(3,293)	16,683	(486)	475,766

* These reserve accounts comprise the Company's reserves available for distribution amounting to RMB468,668,000 (2012: RMB206,515,000).

33. RESERVES (continued)

(b) Company (continued)

The employee share-based compensation reserve comprises the fair value of share options and share awards granted which are yet to be exercised, as further explained in the accounting policy for equity compensation benefits in note 3.3 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

34. DISPOSAL OF A SUBSIDIARY

On 30 August 2013, the Group disposed of its entire interest in a wholly-owned subsidiary, Fuzhou Zhuolong Tianxun Information Technology Ltd. ("Zhuolong"), for a cash consideration of RMB950,000 and the Group can retain all assets and liabilities on the management accounts of Zhuolong as at 30 August 2013 except for intangible assets of RMB694,000. Zhuolong is engaged in the provision of music and mobile internet related services. The disposal was made as the Group has shifted its strategic focus to the rapid layout in the field of digital music and mobile Internet.

	Notes	RMB'000
Net assets disposed of:		
Intangible assets	17	694
Accounts receivable		336
Prepayments, deposits and other receivables		263
Amounts due from related parties		1,246
Cash and bank balances		142
Accounts payable		(274)
Other payables and accruals		(1,927)
Total identifiable net assets at fair value		480
Gain on disposal of a subsidiary	6	256
		736
Satisfied by:		
Cash		760
Other receivables		190
Net liabilities (excluding the intangible assets)		(214)
		736

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration received	760

35. PLEDGE OF ASSETS

At 31 December 2012, the Group's bank loan was secured by certain asset of the Group. Details were included in note 27(a) to the financial statements.

36. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements with lease terms of one year. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of buildings as follows:

	Group	
	2013	2012
	RMB'000	RMB'000
Within one year	**539**	2,375

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following commitments as at the end of the reporting period:

	Group	
	2013	2012
	RMB'000	RMB'000
Authorised, but not contracted for:		
Construction in progress	**–**	120,000
Contracted, but not provided for:		
Construction in progress	**1,851**	60,660
	1,851	180,660

At the end of the reporting period, the Company did not have any significant commitments.

38. RELATED PARTY TRANSACTIONS

(a) In addition to those detailed elsewhere in these financial statements, during the current year, the Group had the following transaction:

	2013 RMB'000	2012 RMB'000
Service fee paid	**506**	1,906

The Company entered into a subcontract agreement with Beijing Caiyun Online Technologies Co., Ltd. (a subsidiary of Duomi Music) dated 4 November 2011 for software development and the provision of music downloading service. The service fee was determined at rates mutually agreed between the relevant parties.

The above related party transaction also constitutes a connected transaction as defined in Chapter 14A of the Listing Rules.

(b) Outstanding balance with an associate:

Details of the Group's balance with its associate at the end of the reporting period are disclosed in note 22 to the financial statements.

(c) Compensation of key management personnel of the Group

	2013 RMB'000	2012 RMB'000
Short term employee benefits	**2,771**	3,289
Post-employment benefits	**181**	159
Equity-settled share option expenses	**216**	1,111
Equity-settled share award expenses	**808**	91
Total compensation paid to key management personnel	**3,976**	4,650

39. FINANCIAL INSTRUMENTS BY CATEGORY

Other than investments at fair value through profit or loss and conversion option embedded in preferred shares as disclosed in notes 23 and 29, respectively, to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2013 and 2012, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

Financial assets

As at 31 December 2013

	Carrying amounts RMB'000	Fair values RMB'000
Investments at fair value through profit or loss	10,316	10,316
Conversion option embedded in preferred shares	13,015	13,015
	23,331	23,331

As at 31 December 2012

	Carrying amounts RMB'000	Fair values RMB'000
Investments at fair value through profit or loss	1,371	1,371
Conversion option embedded in preferred shares	12,600	12,600
	13,971	13,971

Financial liabilities

As at 31 December 2012

	Carrying amounts RMB'000	Fair values RMB'000
Interest-bearing bank borrowing	69,567	69,567

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value

As at 31 December 2013

	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Investments at fair value through profit or loss	10,316	–	–	10,316
Conversion option embedded in preferred shares	–	–	13,015	13,015
	10,316	–	13,015	23,331

As at 31 December 2012

	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Investments at fair value through profit or loss	1,371	–	–	1,371
Conversion option embedded in preferred shares	–	–	12,600	12,600
	1,371	–	12,600	13,971

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at amortised cost

As at 31 December 2012

	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowing	–	69,567	–	69,567

There were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 during the current and prior years.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3.3 above.

(a) Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. As mentioned in note 3.3 above, the Mobile and Telecom Service Fees and the revenue from providing value-added services of the Group are substantially derived from co-operative arrangements with China Mobile and China Unicom (the "Mobile Telecommunications Operators"). If the strategic relationship with either of the Mobile Telecommunications Operators is terminated or scaled-back, or if the Mobile Telecommunications Operators alter the co-operative arrangements, the Group's mobile and telecommunications value-added services might be adversely affected. Since the Group mainly trades with the Mobile Telecommunications Operators, which are recognised and creditworthy third parties, the directors of the Company do not consider these counterparties to be of significant credit risk. Apart from this, the directors of the Company do not consider there are significant concentrations of credit risk.

However, the credit risk relating to the end customers of the services offered by the Group was shared by the Mobile Telecommunications Operators and the Group.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Liquidity risk

The Group manages liquidity risk by maintaining a sufficient amount of bank deposits and use of a bank loan to ensure that operational requirements are fulfilled.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

As at 31 December 2013

RMB'000

	Group			
	Within one year or on demand	**In the second year**	**In the third to fifth years, inclusive**	**Total**
Accounts payable (note 25)	**28,967**	**–**	**–**	**28,967**
Other payables and accruals (note 26)	**80,126**	**–**	**–**	**80,126**
	109,093	**–**	**–**	**109,093**

As at 31 December 2012

RMB'000

	Group			
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Total
Accounts payable (note 25)	30,262	–	–	30,262
Other payables and accruals (note 26)	79,096	–	–	79,096
Interest-bearing bank borrowing	2,313	4,494	75,252	82,059
	111,671	4,494	75,252	191,417

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Capital management

The primary objectives of the Group's capital management are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing its services commensurately with the level of risk.

The Group monitors capital on the basis of the net cash over the debt position, which is cash and cash equivalents less accounts payable, other payables and accruals and interest-bearing bank borrowing. The amounts of the net cash over debt position at the end of the reporting periods were as follows:

	2013 RMB'000	2012 RMB'000
Cash and cash equivalents	449,157	374,562
Accounts payable	(28,967)	(30,262)
Other payables and accruals	(80,126)	(79,096)
Interest-bearing bank borrowing	–	(69,567)
Net cash over debt position	340,064	195,637

42. EVENTS AFTER THE REPORTING PERIOD

(a) On 7 January 2014, the Group subscribed for a Wealth Management Product issued by Ping'an Trust Co., Ltd. at a subscription amount of RMB70 million.

(b) On 24 January 2014, the Group invested RMB20 million to subscribe for an approximately 6% interest in Qingsong Fund II, which is engaged in investment in the mobile internet and internet industry.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2014.

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