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A8 Digital Music Holdings Limited

A8 電媒音樂控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 800)

**CONNECTED TRANSACTION
IN RELATION TO
THE ACQUISITION OF 8.14% EQUITY INTERESTS IN
GUANGZHOU KUGOU, GUANGZHOU SILANG AND KUGOU**

THE KUAITONGLIAN ACQUISITION

The Board is pleased to announce that on 24 October 2011, Kwaitonglian, an indirectly controlled subsidiary of the Company, entered into the Kwaitonglian Share Transfer Agreement with Zhangying Tianxia, pursuant to which Zhangying Tianxia agreed to sell and Kwaitonglian agreed to purchase 8.14% equity interest currently held by Zhangying Tianxia in each of the Target Companies.

THE LIU ACQUISITION

On 24 October 2011, Mr. Liu, the executive Director and a Substantial Shareholder of the Company, entered into the Liu Share Transfer Agreement with Zhangying Tianxia, pursuant to which Zhangying Tianxia agreed to sell and Mr. Liu agreed to purchase 12.86% equity interest currently held by Zhangying Tianxia in each of the Target Companies.

CONNECTED TRANSACTION

Given that (1) Mr. Liu is currently the executive Director and a Substantial Shareholder and thus a Connected Person, and (2) the Liu Acquisition by Mr. Liu and the Kwaitonglian Acquisition by Kwaitonglian is similar to the entering into of an arrangement involving the formation of a joint venture entity, the Kwaitonglian Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios set out in the Listing Rules in respect of the Kwaitonglian Acquisition exceed 0.1% but are less than 5%, the Kwaitonglian Acquisition is subject to reporting and announcement requirements under Chapter 14A of the Listing Rules but is exempted from the independent shareholders' approval requirements.

THE KUAITONGLIAN ACQUISITION

The Board is pleased to announce that on 24 October 2011, Kwaitonglian, an indirectly controlled subsidiary of the Company, entered into the Kwaitonglian Share Transfer Agreement with Zhangying Tianxia, pursuant to which Zhangying Tianxia agreed to sell and Kwaitonglian agreed to purchase 8.14% equity interest currently held by Zhangying Tianxia in each of the Target Companies.

THE KUAITONGLIAN SHARE TRANSFER AGREEMENT

The principal terms of the Kwaitonglian Share Transfer Agreement are set out below:-

Date:

24 October 2011

Parties:

Vendor: Zhangying Tianxia (an Independent Third Party)

Purchaser: Kwaitonglian (an indirectly controlled subsidiary of the Company)

Subject Companies:

Guangzhou Kugou

It is a limited liability company incorporated in February 2006 under the laws of the PRC with a registered capital of RMB10,000,000 (equivalent to approximately HK\$12,195,122). Immediately prior to the completion of the Kwaitonglian Acquisition (assuming that the Liu Acquisition has not been completed), the equity interest of Guangzhou Kugou is owned as to 21% by Zhangying Tianxia.

Guangzhou Silang

It is a limited liability company incorporated in April 2003 under the laws of the PRC with a registered capital of RMB1,188,200 (equivalent to approximately HK\$1,449,024). Immediately prior to the completion of the Kwaitonglian Acquisition (assuming that the Liu Acquisition has not been completed), the equity interest of Guangzhou Silang is owned as to 21% by Zhangying Tianxia.

KuGou

It is a limited liability company incorporated in May 2008 under the laws of the British Virgin Islands with a registered capital of USD50,000 (equivalent to approximately HK\$389,000) with par value of USD 1 each. Immediately prior to the completion of the Kwaitonglian Acquisition (assuming that the Liu Acquisition has not been completed), the equity interest of KuGou is owned as to 21% by Zhangying Tianxia.

Assets to be acquired:

8.14% equity interest in each of the Target Companies

Consideration:

The total consideration for the sale of 8.14% equity interest in each of Guangzhou Kugou and Guangzhou Silang in the Kwaitonglian Acquisition is RMB16,311,090 (equivalent to approximately HK\$19,891,573), which was determined based on arms' length negotiations between Zhangying Tianxia and Kwaitonglian with reference to the valuation of recent M&A transactions in internet business, the number of users registered with Guangzhou Kugou and

Guangzhou Silang and the Board's assessment of their business potential.

The total consideration for the sale of 8.14% equity interest in KuGou in the Kwaitonglian Acquisition is nil or the minimum price as required by laws, which was determined based on the negotiation results between Zhangying Tianxia and Kwaitonglian. Out of the 8.14% equity interest in KuGou, an aggregate of 0.3729 % equity interest is held in trust for the employees of KuGou under a share option scheme of KuGou; and Kwaitonglian will make an advance payment to Zhangying Tianxia amounting to RMB186,450 (equivalent to approximately HK\$227,378), which will be recovered by Kwaitonglian from the employees of KuGou once they latter exercise their awarded share options to subscribe for the shares of KuGou.

Payment:

The total consideration will be paid by Kwaitonglian in cash by three installments, 20% of which will be settled within 10 business days from the date of signing of the Kwaitonglian Share Transfer Agreement; 50% of which will be settled within 15 business days from the completion of procedures for amending the relevant records of Guangzhou Kugou and Guangzhou Silang at the Industry and Commerce Bureau; and the remaining 30% will be fully settled within 4 months from the date of signing of the Kwaitonglian Share Transfer Agreement.

Conditions Precedent:

The completion of the Kwaitonglian Share Transfer Agreement is conditional upon the following conditions:

- (1) Zhangying Tianxia directly and legally owns the right in the relevant shares to be transferred at completion;
- (2) all the shareholders of each of the Target Companies have issued a letter to give consent to the relevant share transfer and to waive any pre-emptive rights in such shares;
- (3) Kwaitonglian has completed a due diligence investigation against each of the Target Companies (including but not limited to reviewing matters relating to the due incorporation, valid subsistence, assets and liabilities, financial status and business operations of each of the Target Companies) and is satisfied with the relevant review results;
- (4) all the shareholders of each of the Target Companies have executed the relevant amendment to the articles of association of each of the Target Companies;
- (5) the shareholders of each of the Target Companies have passed a shareholders' resolution to approve the relevant share transfer and other ancillary matters; and
- (6) all other approvals that are necessary or at the reasonable request of the parties for the completion of the transaction under the Kwaitonglian Share Transfer Agreement have been obtained.

Completion:

Completion of the Kwaitonglian Acquisition shall take place following all conditions precedent in respect of the relevant share transfer in the Target Companies from Zhangying Tianxia to Kwaitonglian having been fulfilled.

Voting Delegation Arrangement:

At the request of the Target Companies and based on the negotiation results between Mr. Liu and the Company, Kwaitonglian has agreed to delegate to Mr. Liu the voting rights attributed to the relevant 8.14% equity interest in each of the Target Companies to be transferred to Kwaitonglian in the Kwaitonglian Acquisition.

THE LIU ACQUISITION

On 24 October 2011, Mr. Liu, the executive Director and a Substantial Shareholder of the Company, entered into the Liu Share Transfer Agreement with Zhangying Tianxia, pursuant to which Zhangying Tianxia agreed to sell and Mr. Liu agreed to purchase at a consideration of RMB25,769,130 (equivalent to approximately HK\$31,425,768) 12.86% equity interest currently held by Zhangying Tianxia in Guangzhou Kugou and Guangzhou Silang respectively, and to purchase at nil consideration or at such minimum price as required by laws 12.86% equity interest of Zhangying Tianxia in KuGou. Out of the 12.86% equity interest in KuGou, an aggregate of 0.5889% equity interest is held in trust for the employees of KuGou under a share option scheme of KuGou; and Mr. Liu will make an advance payment to Zhangying Tianxia amounting to RMB294,450 (equivalent to approximately HK\$359,085), which will be recovered by Mr. Liu from the employees of KuGou once they latter exercise their awarded share options to subscribe for the shares of KuGou.

All the terms and conditions under the Liu Share Transfer Agreement are substantially identical to the Kwaitonglian Share Transfer Agreement and the valuation for the Target Companies is the same under the two share transfer agreements.

FINANCIAL INFORMATION ON GUANGZHOU KUGOU, GUANGZHOU SILANG AND KUGOU

The audited gains of Guangzhou Kugou for the financial year ended 31 December 2009 and for the financial year ended 31 December 2010 before taxation and extraordinary items were approximately RMB4,669,437 (equivalent to approximately HK\$5,694,435) and approximately RMB10,726,337 (equivalent to approximately HK\$13,080,899) respectively and after taxation and extraordinary items were approximately RMB3,450,399 (equivalent to approximately HK\$4,207,804) and approximately RMB 9,149,496 (equivalent to approximately HK\$11,157,922) respectively.

The audited net asset value of Guangzhou Kugou for the financial year ended 31 December 2009 and for the financial year ended 31 December 2010 was approximately RMB15,428,389 (equivalent to approximately HK\$18,815,109) and approximately RMB 24,574,882 (equivalent to approximately HK\$29,969,368) respectively.

The audited gains of Guangzhou Silang for the financial year ended 31 December 2009 and for the financial year ended 31 December 2010 before taxation and extraordinary items were approximately RMB1,601,350 (equivalent to approximately HK\$1,952,866) and approximately RMB4,113,908 (equivalent to approximately HK\$5,016,961) respectively and after taxation and extraordinary items were approximately RMB1,290,696 (equivalent to approximately HK\$1,574,020) and approximately RMB3,767,293 (equivalent to approximately HK\$4,594,260) respectively.

The audited net asset value of Guangzhou Silang for the financial year ended 31 December 2009 and for the financial year ended 31 December 2010 was approximately RMB5,850,246 (equivalent to approximately HK\$7,134,446) and approximately RMB 10,469,563 (equivalent to approximately HK\$12,767,760) respectively.

KuGou has not yet carried out any business or operations and no account or financial statements have yet been prepared for KuGou as at the date of this announcement.

The above financial information was prepared under the PRC GAAP.

INFORMATION ON THE COMPANY, KUAITONGLIAN AND ZHANGYING TIANXIA

The Company principally engages in the business of digital music. It sources its music content from its own interactive platform, www.a8.com, as well as from other international and domestic record labels, and sells the music content to mobile phone subscribers in the PRC.

Kuaitonglian, a limited liability company incorporated in May 2004 under the laws of the PRC and a subsidiary of the Company which is indirectly controlled by the Company through contractual arrangements, is principally engaged in the business of, among others, the technological development of computer hardware and software and information networking systems and telecommunications value-added services.

Zhangying Tianxia is a limited liability company incorporated in August 2008 under the laws of the PRC and an Independent Third Party. The principal business of Zhangying Tianxia is the development of computer software and technology relating to communication and telecommunication and the provision of information technology advisory services.

REASONS FOR THE KUAITONGLIAN ACQUISITION

The principal business of the Target Companies is the provision of online music business in the PRC. It is contemplated that the Kuaitonglian Acquisition will enable the Company to capitalize on the economic aspects of the Target Companies. In the meantime, the Board believes that the Kuaitonglian Acquisition is a good opportunity for the Company to participate in different aspects of digital music business which would help the Company to achieve its goal to be the leading digital music service provider in the PRC.

At the request of the Target Companies and based on the negotiation results between Mr. Liu and the Company, Kuaitonglian has agreed to delegate to Mr. Liu the voting rights attributed to the relevant 8.14% equity interest in each of the Target Companies to be transferred to Kuaitonglian in the Kuaitonglian Acquisition. The Board considers that such arrangement is in the interests of the Company and its Shareholders as a whole. Given the minority and insignificant stake in each of the Target Companies, the Company plans to act as a passive investor and is only interested in the economic aspects of the Target Companies. Further, the Board believes that the interest of Mr. Liu being a minority shareholder of the Target Companies would align with that of the Company; and the effect of the voting rights to be delegated to Mr. Liu is relatively limited given the small shareholding to be acquired in each of the Target Companies in the Kuaitonglian Acquisition. Accordingly, the Board believes that Mr. Liu (the executive Director and a Substantial Shareholder of the Company) would exercise the voting rights attributed to the subject equity interest in the Kuaitonglian Acquisition in a way that would be consistent with the interests of the Company and its Shareholders and the voting delegation arrangement would enable the Group to focus its managerial effort on the Group's existing business.

The terms of the Kuaitonglian Share Transfer Agreement are on normal commercial terms and have been arrived at after arm's length negotiation between the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of the Kuaitonglian Share Transfer Agreement are fair and reasonable and that the entering into of the Kuaitonglian Share Transfer Agreement is in the interests of the Company and its

Shareholders as a whole.

Save for Mr. Liu, all the Directors have confirmed that none of them has any material interest in the Kwaitonglian Acquisition; and therefore no Director (except Mr. Liu) is required to abstain from voting on the board resolutions to approve the Kwaitonglian Acquisition.

IMPLICATIONS UNDER THE LISTING RULES

Given that (1) Mr. Liu is currently the executive Director and a Substantial Shareholder and thus a Connected Person; and (2) the Liu Acquisition by Mr. Liu and the Kwaitonglian Acquisition by Kwaitonglian are similar to the entering into of an arrangement involving the formation of a joint venture entity, the Kwaitonglian Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios set out in the Listing Rules in respect of the Kwaitonglian Acquisition exceed 0.1% but are less than 5%, the Kwaitonglian Acquisition is subject to reporting and announcement requirements under Chapter 14A of the Listing Rules but is exempted from the independent shareholders' approval requirements.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“Board”	the board of the directors of the Company
“Connected Person”	has the meaning ascribed thereto under the Listing Rules
“Company”	A8 Digital Music Holdings Limited (A8 電媒音樂控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 800)
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Guangzhou Kugou”	Guangzhou Kugou Computer Technology Company Limited (廣州酷狗計算機科技有限公司), a limited liability company incorporated in February 2006 under the laws of the PRC
“Guangzhou Silang”	Guangzhou Silang Information Technology Company Limited (廣州思浪資訊科技有限公司), a limited liability company incorporated in April 2003 under the laws of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong

“Independent Third Party”	person or company and their respective ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of and not connected with the Company and its Connected Persons
“Kwaitonglian”	Shenzhen Kwaitonglian Technology Company Limited (深圳市快通聯科技有限公司), a limited liability company incorporated in May 2004 under the laws of the PRC and a subsidiary of the Company which is indirectly controlled by the Company through contractual arrangements
“Kwaitonglian Acquisition”	the entering into of the Kwaitonglian Share Transfer Agreement and the acquisition of the equity interest in each of the Target Companies by Kwaitonglian contemplated thereunder
“Kwaitonglian Share Transfer Agreement”	the share transfer agreement dated 24 October 2011 entered into between Zhangying Tianxia and Kwaitonglian in relation to the purchase of 8.14% equity interest of Zhangying Tianxia in each of the Target Companies
“KuGou”	KuGou Holding Limited, a limited liability company incorporated in May 2008 under the laws of the British Virgin Islands
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Liu Acquisition”	the entering into of the Liu Share Transfer Agreement and the acquisition of the equity interest in each of the Target Companies by Mr. Liu contemplated thereunder
“Liu Share Transfer Agreement”	the share transfer agreement dated 24 October 2011 entered into between Zhangying Tianxia and Mr. Liu in relation to the purchase of 12.86% equity interest of Zhangying Tianxia in each of the Target Companies
“Mr. Liu”	Mr. Liu Xiaosong, the executive Director and a Substantial Shareholder of the Company
“percentage ratios”	has the meaning ascribed to the term in Chapter 14 of the Listing Rules
“PRC”	the People’s Republic of China, and, for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan

“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares of the Company
“Zhangying Tianxia”	Shenzhen Zhangying Tianxia Technology Development Company Limited (深圳市掌盈天下科技開發有限公司), a limited liability company incorporated in August 2008 under the laws of the PRC and an Independent Third Party
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder”	has the meaning ascribed to the term under the Listing Rules
“Target Companies”	Guangzhou Kugou, Guangzhou Silang and KuGou
“USD”	U.S. dollar(s), the lawful currency of the United States of America
“%”	percent

In this announcement, amounts denominated in RMB have been converted into HK\$ at the rate of RMB0.82 = HK\$1 for the purpose of illustration.

By Order of the Board
A8 Digital Music Holdings Limited
Liu Xiaosong
Chairman and Executive Director

Hong Kong, 24 October 2011

As at the date of this announcement, the Board of the Company comprises:

- (1) Executive Directors Mr. Liu Xiaosong and Mr. Lu Bin;*
- (2) Non-Executive Director namely Mr. Li Wei; and*
- (3) Independent Non-Executive Directors namely Mr. Chan Yiu Kwong, Mr. Zeng Liqing and Mr. Hui, Harry Chi.*