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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)**

**ANNOUNCEMENT OF THE ANNUAL RESULTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**FINANCIAL HIGHLIGHTS**

- 2011 full year revenue amounted to RMB483.6 million, representing a decrease of 29.1% from RMB681.8 million in 2010.
- Profit attributable to the shareholders in 2011 decreased by 69.6% amounted to RMB12.7 million from RMB41.8 million in 2010.
- Strong balance sheet, with cash and bank balance and highly liquid short term assets of RMB434.4 million and net assets of RMB540.8 million as of 31 December 2011.

The board (the “Board”) of directors (the “Directors”) of A8 Digital Music Holdings Limited (the “Company”) announces the consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2011. The results have been reviewed by the Audit Committee of the Company, comprising all the independent non-executive Directors.

## CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
<b>REVENUE</b>		<b>483,587</b>	681,839
Business tax		<u>(11,546)</u>	<u>(11,493)</u>
Net revenue	5	<b>472,041</b>	670,346
Cost of services provided		<u>(285,916)</u>	<u>(418,573)</u>
Gross profit		<b>186,125</b>	251,773
Other income and gains, net	5	<b>11,637</b>	13,758
Selling and marketing expenses		<u>(124,032)</u>	<u>(142,768)</u>
Administrative expenses		<u>(53,472)</u>	<u>(64,801)</u>
Other expenses, net		<u>(979)</u>	<u>(10,529)</u>
Share of loss of an associate		<u>(1,123)</u>	—
<b>PROFIT BEFORE TAX</b>	6	<b>18,156</b>	47,433
Income tax expense	7	<u>(5,241)</u>	<u>(5,115)</u>
<b>PROFIT FOR THE YEAR</b>		<b><u>12,915</u></b>	<b><u>42,318</u></b>
Attributable to:			
Owners of the Company		<b>12,687</b>	41,765
Non-controlling interests		<b>228</b>	553
		<b><u>12,915</u></b>	<b><u>42,318</u></b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY</b>	9		
Basic (RMB per share)		<b><u>0.03</u></b>	<u>0.09</u>
Diluted (RMB per share)		<b><u>0.03</u></b>	<u>0.09</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

31 December 2011

	<i>Notes</i>	<b>2011</b> <b>RMB'000</b>	<b>2010</b> <b>RMB'000</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>60,509</b>	14,682
Prepaid land lease payments		<b>26,825</b>	27,411
Goodwill		<b>1,515</b>	3,710
Prepayment for acquisition of intangible asset	<i>10</i>	–	27,912
Prepayment for acquisition of property, plant and equipment		<b>4,593</b>	–
Intangible assets		<b>30,855</b>	13,254
Investment in an associate	<i>11</i>	<b>4,177</b>	–
Deposit for acquisition of an investment	<i>12</i>	<b>8,000</b>	–
Deferred tax assets		<b>4,594</b>	5,068
Total non-current assets		<b>141,068</b>	92,037
<b>CURRENT ASSETS</b>			
Accounts receivable	<i>13</i>	<b>55,058</b>	83,389
Prepayments, deposits and other receivables		<b>37,839</b>	28,843
Investments at fair value through profit or loss		<b>1,880</b>	19,374
Time deposits with original maturity of more than three months		<b>71,911</b>	24,849
Cash and cash equivalents		<b>360,596</b>	392,540
Total current assets		<b>527,284</b>	548,995
<b>CURRENT LIABILITIES</b>			
Accounts payable	<i>14</i>	<b>26,483</b>	43,722
Other payables and accruals		<b>72,439</b>	53,177
Tax payable		<b>7,201</b>	10,737
Deferred income		<b>6,808</b>	9,975
Total current liabilities		<b>112,931</b>	117,611
<b>NET CURRENT ASSETS</b>		<b>414,353</b>	431,384
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>555,421</b>	523,421
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowing	<i>15</i>	<b>13,000</b>	–
Deferred tax liabilities		<b>1,643</b>	1,903
Total non-current liabilities		<b>14,643</b>	1,903
Net assets		<b>540,778</b>	521,518
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	<i>16</i>	<b>4,201</b>	4,095
Reserves		<b>536,577</b>	516,597
		<b>540,778</b>	520,692
<b>Non-controlling interests</b>		–	826
Total equity		<b>540,778</b>	521,518

## NOTES

### 1. CORPORATE INFORMATION

A8 Digital Music Holdings Limited 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 mobile value-added services, focusing on music and culture related content through mobile phones 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 investments at fair value through profit or loss 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 2011. 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 of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

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.

### 3 CHANGES IN ACCOUNTING POLICY 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 Amendment	Amendment to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>
IAS 24 (Revised)	<i>Related Party Disclosures</i>
IAS 32 Amendment	Amendment to IAS 32 <i>Financial Instruments: Presentation – Classification of Rights Issues</i>
IFRIC 14 Amendments	Amendments to IFRIC 14 <i>Prepayments of a Minimum Funding Requirement</i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>
<i>Improvements to IFRSs 2010</i>	Amendment to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IFRS 24 (Revised), and amendments to IFRS 3, IAS 1 and IAS 27 included in *Improvements to IFRSs 2010*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 3 *Business Combinations*: The amendment clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- *IAS 1 Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.
- *IAS 27 Consolidated and Separate Financial Statements*: The amendment clarifies that consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

#### **4. OPERATING SEGMENT INFORMATION**

The directors consider that the Group's activities constitute one operating segment as the Group is principally engaged in providing mobile value-added services, focusing on music and culture content through mobile phones. 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 RMB239,824,000 (2010: RMB302,978,000) and RMB61,488,000 (2010: RMB54,532,000) respectively were derived from providing mobile value-added services through mobile phones to the two largest customers.

## 5. REVENUE, OTHER INCOME AND GAINS, NET

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

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
<b>Revenue</b>		
Ringtone services	53,404	81,928
Ringback tone services	246,448	238,878
Interactive voice response music	–	3,234
Other music related services	8,966	32,617
Non-music related services	174,769	325,182
	<hr/>	<hr/>
	483,587	681,839
Less: Business tax	(11,546)	(11,493)
	<hr/>	<hr/>
Net revenue	472,041	670,346
	<hr/> <hr/>	<hr/> <hr/>
<b>Other income and gains, net</b>		
Interest income	10,516	13,401
Gain on disposal of investments at fair value through profit or loss	235	–
Gain on disposal of subsidiaries	794	–
Foreign exchange differences, net	68	357
Others	24	–
	<hr/>	<hr/>
	11,637	13,758
	<hr/> <hr/>	<hr/> <hr/>

## 6. PROFIT BEFORE TAX

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

	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Depreciation	<b>1,860</b>	2,399
Amortisation of intangible assets #	<b>5,062</b>	2,556
Amortisation of prepaid land lease payments #	<b>586</b>	586
Operating lease rentals in respect of office buildings	<b>6,192</b>	7,438
Auditors' remuneration	<b>1,192</b>	1,176
Employee benefit expense (including directors' remuneration):		
Wages, salaries and bonuses	<b>42,447</b>	51,863
Welfare, medical and other expenses	<b>5,342</b>	3,037
Contributions to social security plans	<b>6,030</b>	6,333
Equity-settled share option expense	<b>3,798</b>	8,100
Equity-settled share award expense	<b>5,902</b>	4,969
	<b>63,519</b>	74,302
Write-off intangible assets**	–	3,312
Impairment of accounts receivable**	<b>776</b>	5,216
Write back of impairment of accounts receivable**	<b>(3,593)</b>	–
Impairment of other receivables**	<b>2,666</b>	–
Accounts receivable written off as uncollectible**	–	808
Mobile and Telecom Charges*	<b>176,629</b>	199,039
Fair value loss on investments at fair value through profit or loss**	<b>393</b>	827

# Included in "Administrative expenses" on the face of the consolidated income statement.

\* Included in "Cost of services provided" on the face of the consolidated income statement.

\*\* Included in "Other expenses" on the face of the consolidated income statement.



## 7. 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 (2010: 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:

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Group		
Current – PRC		
Charge for the year	3,452	9,138
Underprovision in prior year	1,575	–
Deferred	214	(4,023)
	<hr/>	<hr/>
Total tax charge for the year	<b>5,241</b>	<b>5,115</b>
	<hr/> <hr/>	<hr/> <hr/>

## 8. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2011 (2010: Nil).

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 December 2011 is based on the profit for the year attributable to equity holders of the Company of RMB12,687,000 (2010: RMB41,765,000) and the weighted average number of ordinary shares in issue less shares held under share award scheme during the year ended 31 December 2011 of 465,451,917 (2010: 460,192,000).

The calculation of diluted earnings per share for the year ended 31 December 2011 is based on the profit for the year attributable to equity holders of the Company of RMB12,687,000 (2010: RMB41,765,000) as used in the basic earnings per share calculation.

The weighted average number of ordinary shares used in the calculation is the 465,451,917 (2010: 460,192,000) ordinary shares in issue less shares held under share award scheme during the year, as used in the basic earnings per share calculation, and the weighted average of 9,271,000 (2010: 7,211,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares and the effect of awarded shares.

## 10. PREPAYMENT FOR ACQUISITION OF INTANGIBLE ASSET

As at 31 December 2010, the prepayment for acquisition of intangible asset represented a prepayment to an independent third party as development cost of certain parts of the Music Cloud project, a multi-functional system for customers to access music products anywhere and anytime through diversified platforms based on cloud computing technology and wireless internet. During the year, the development results have been delivered to the Group, and the prepayment in the amount of RMB22,095,000 was transferred to intangible assets and the remaining amount of RMB5,817,000 was refunded by the third party during the year ended 31 December 2011.

## 11. INVESTMENT IN AN ASSOCIATE

	<b>Group</b>	
	<b>2011</b>	2010
	<i>RMB'000</i>	<i>RMB'000</i>
Share of net assets	1,535	–
Goodwill on acquisition	2,642	–
	<u>4,177</u>	<u>–</u>

Particulars of the associate are as follows:

<b>Company name</b>	<b>Particulars of registered capital</b>	<b>Place of establishment</b>	<b>Percentage of ownership interest attributable to the Group 2011</b>	<b>Principal activities</b>
Shenzhen Ningmenghai Techonology Ltd.,Co. ("Ningmenghai")	RMB1,477,371	PRC	19.34%	Provision of internet social network service

As at 31 December 2011, the Group owned 19.34% equity interest in Ningmenghai (2010: Nil). 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.

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

The above investment in an associate is indirectly held by the Company.

The following table illustrates the summarised financial information of the Group's interest in an associate extracted from their management accounts:

	<b>2011</b>
	<b>RMB'000</b>
Share of the associate's assets and liabilities:	
Current assets	1,519
Non-current assets	136
Current liabilities	(120)
	<hr/>
Net assets	<b>1,535</b>
	<hr/> <hr/>
Share of the associate's results:	
Revenue	806
Total expenses	(1,929)
	<hr/>
Loss for the year	<b>(1,123)</b>
	<hr/> <hr/>

## 12. DEPOSIT FOR ACQUISITION OF AN INVESTMENT

As at 31 December 2011, the deposit for acquisition of an investment amounting to RMB8,000,000 represented the deposit paid in relation to the proposed acquisition of 42.69% interest in Duomi Music Holding (Cayman) Company Limited ("Duomi Music") pursuant to a share subscription agreement dated 19 September 2011 entered into by Duomi Music with, inter alias, Phoenix Success Limited, a wholly-owned subsidiary of the Company, for the subscription of shares in Duomi Music. Duomi Music and its subsidiaries are principally engaged in the provision of ancillary and related services in relation to mobile internet especially on the research and development of music platforms and operations. The acquisition has not been completed up to the date of this announcement.

## 13. ACCOUNTS RECEIVABLE

	<b>Group</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Accounts receivable	57,457	88,605
Impairment	(2,399)	(5,216)
	<hr/>	<hr/>
	<b>55,058</b>	83,389
	<hr/> <hr/>	<hr/> <hr/>

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.

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:

	<b>Group</b>	
	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<i>Neither past due nor impaired:</i>		
Within 1 month	<b>20,401</b>	34,539
1 to 2 months	<b>16,262</b>	29,214
2 to 3 months	<b>11,056</b>	11,623
3 to 4 months	<b>2,460</b>	3,680
<i>Past due but not impaired:</i>		
4 to 6 months	<b>1,435</b>	4,317
Over 6 months	<b>3,444</b>	16
	<hr/>	<hr/>
	<b>55,058</b>	83,389
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>Group</b>	
	<b>2011</b>	2010
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
At 1 January	<b>5,216</b>	–
Impairment losses recognised ( <i>note 6</i> )	<b>776</b>	5,216
Write back of impairment ( <i>note 6</i> )	<b>(3,593)</b>	–
	<hr/>	<hr/>
At 31 December	<b>2,399</b>	5,216
	<hr/> <hr/>	<hr/> <hr/>

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.

#### 14. 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:

	<b>Group</b>	
	<b>2011</b> <i>RMB'000</i>	<b>2010</b> <i>RMB'000</i>
Within 1 month	5,160	8,701
1 to 3 months	10,178	15,685
4 to 6 months	3,785	7,531
Over 6 months	7,360	11,805
	<b>26,483</b>	<b>43,722</b>
	<b>26,483</b>	<b>43,722</b>

The accounts payable are non-interest-bearing and are normally settled on 30-day to 120-day terms.

#### 15. INTEREST-BEARING BANK BORROWING

##### Group

<b>Group</b>	<b>2011</b>			<b>2010</b>
	<b>Effective interest rate (%)</b>	<b>Maturity</b>	<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>
<b>Non-current</b>				
Bank loans – secured	7.05%	2014	13,000	–

	<b>Group</b>	
	<b>2011</b> <i>RMB'000</i>	<b>2010</b> <i>RMB'000</i>
Analysed into:		
Bank loan repayable:		
In the third to fifth years, inclusive	13,000	–

##### Notes:

- (a) The Group's bank loan is secured by the pledge of the Group's leasehold land situated in Mainland China, which had an aggregate carrying value at the end of the reporting period of approximately RMB27,410,000 (2010: Nil).
- (b) The Group's entire bank borrowing is guaranteed by a subsidiary as at the end of the reporting period (2010: Nil).
- (c) The Group's bank borrowing is denominated in Renminbi.
- (d) The carrying amount of the Group's borrowing approximates to its fair value.

## 16. SHARE CAPITAL

### Shares

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Authorised:		
3,000,000,000 (2010: 3,000,000,000) ordinary shares of HK\$0.01 each	<u>26,513</u>	<u>26,513</u>
Issued and fully paid:		
475,976,496 (2010: 463,402,530) ordinary shares of HK\$0.01 each	<u>4,201</u>	<u>4,095</u>

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 <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Equivalent nominal value of ordinary shares <i>RMB'000</i>	Equivalent share premium account <i>RMB'000</i>	Total <i>RMB'000</i>
As at 1 January 2010	457,749,950	4,578	197,037	4,045	174,200	178,245
Exercise of share options	5,652,580	57	10,853	50	9,461	9,511
As at 31 December 2010 and 1 January 2011	463,402,530	4,635	207,890	4,095	183,661	187,756
Exercise of share options	810,960	8	1,568	7	1,298	1,305
Issue of new shares	11,763,006	118	–	99	–	99
As at 31 December 2011	<u>475,976,496</u>	<u>4,761</u>	<u>209,458</u>	<u>4,201</u>	<u>184,959</u>	<u>189,160</u>

During the year, a total of 756,960 share options under Pre-IPO share option scheme were exercised at exercise prices ranging from HK\$0.16 to HK\$0.74 per share, and a total of 54,000 share options under share option scheme were exercised at exercise price of HK\$1.16 per share for a total cash consideration, before expenses, of HK\$474,000 (RMB404,000).

## 17. COMMITMENTS

The Group had the following commitments as at the end of the reporting period:

		<b>Group</b>	
	<i>Note</i>	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
Authorised, but not contracted for:			
Construction in progress		<b>164,000</b>	281,000
Contracted, but not provided for:			
Construction in progress		<b>83,800</b>	11,000
Acquisition of an investment	<i>(i)</i>	<b>16,311</b>	–
		<b>264,111</b>	292,000

- (i) In October 2011, the Group proposed to acquire 8.14% interest in Guangzhou Kugou Computer Technology Company, Guangzhou Silang Information Technology Company Limited and Kugou Holding Limited (collectively the “Kugou group”) for a total cash consideration of RMB16,311,000. Kugou group is engaged the provision of online music business in the PRC.

Subsequent to the end of reporting period, on 19 January 2012, the Group entered into a termination agreement for the termination of the proposed acquisition of Kugou group with effect from 19 January 2012.

## 18. RELATED PARTY TRANSACTIONS

- (a) On 28 April 2011, the Group entered into the share transfer agreements with, among others, Shenzhen Duiyiweier Technology Co. Limited (“Shenzhen Technology”) pursuant to which the Group agreed to sell 100% equity interest in Beijing Haide Zhongshi Cultural Broadcasting Co., Ltd. and 80% equity interest in Beijing Zhengshangyou Cultural Broadcasting Co., Ltd. for a consideration of RMB100,000 and RMB4,700,000, respectively. Mr. Liu Xiaosong (“Mr. Liu”), a director of the Company, owned 80% equity interest of Shenzhen Technology.
- (b) In September 2011, the Group advanced an amount of RMB11 million to Beijing Caiyun Online Technologies Co., Ltd. (“Beijing Caiyun”), which became owned as to 44.74% by Mr. Liu upon the completion of domestic restructuring of Beijing Caiyun in October 2011, and thus became a related company of the Group.
- (c) Compensation of key management personnel of the Group

	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
Short term employee benefits	<b>3,291</b>	4,332
Post-employment benefits	<b>177</b>	103
Equity-settled share-based payment expenses	<b>1,563</b>	2,136
Total compensation paid to key management personnel	<b>5,031</b>	6,571

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

#### *Revenue and profit attributable to owners of the Company*

For the year ended 31 December 2011, the revenue of the Group amounted to approximately RMB483.6 million, representing a decrease of 29.1% as compared with 2010 (2010: approximately RMB681.8 million).

The decline in revenue was mainly due to the continuing negative impact brought by the strict regulations implemented to MVAS industry during 2010. Facing the persistent market pressure, the Group takes a positive attitude to strengthen its traditional music-related business together with new business structure through re-organization.

For the year ended 31 December 2011, the profit attributable to the owners of the Company amounted to approximately RMB12.7 million, representing a decrease of approximately 69.6% as compared with 2010 (2010: approximately RMB41.8 million).

#### *Cost of services provided*

For the year ended 31 December 2011, cost of services provided by the Group amounted to approximately RMB285.9 million, representing a decrease of approximately 31.7% as compared with 2010 (2010: approximately RMB418.6 million).

The cost of services provided mainly comprises revenue share with mobile operators and business alliances, and other costs such as music 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 36.5% of the total revenue for the year ended 31 December 2011, representing an increase of 7.6% as compared with 2010 (2010: approximately 29.0%). The increase was mainly due to the change of product mix. Ringback tone services (“RBT”) and game business have gone up to 51.0% and 13.8% of the total revenue from 35.0% and 8.5% in 2010, which are normally charged at a higher revenue share.

Revenue share with business alliances averaged at approximately 17.8% of the total revenue for the year ended 31 December 2011, representing a decrease of 11.5% as a result of the decline of revenue for non-music related services, which mainly constitute the cost of business alliance (2010: approximately 29.3%).



### *Gross profit*

For the year ended 31 December 2011, the gross profit of the Group amounted to approximately RMB186.1 million, representing a decrease of approximately 26.1% as compared with 2010 (2010: approximately RMB251.7 million). The overall gross profit margin of the Group increased from approximately 36.9% to 38.5%. The increase was mainly due to the sharp decline of revenue share with business alliance which downwards by the decrease of non-music related services.

### *Other income and gains, net*

For the year ended 31 December 2011, the other income and gains of the Group were approximately RMB11.6 million, representing a decrease of approximately 15.4% as compared with 2010 (2010: net gain of approximately RMB13.8 million).

The decrease was mainly due to the decrease of interest income amounted to approximately RMB2.9 million, which was partly offset by the increase of gain on disposal of subsidiaries amounted to approximately RMB0.8 million.

### *Selling and marketing expenses*

For the year ended 31 December 2011, the selling and marketing expenses of the Group amounted to approximately RMB124.0 million, decreased by 13.2% as compared with 2010, representing 25.6% of total revenue.(2010: approximately RMB142.8 million, representing 20.9% of total revenue).

The increase in ratio of total revenue is due to the high promotion and marketing costs associated with the increasing RBT services, which covered more than 50% of the total selling and marketing expenses, representing about 17.7% of the total revenue.

### *Administrative expenses*

For the year ended 31 December 2011, the administrative expenses of the Group amounted to approximately RMB53.5 million, representing a decrease of approximately 17.4% as compared with 2010 (2010: approximately RMB64.8 million).

The decrease was mainly due to the decrease of labor cost and the share option expense of approximately RMB4.4 million and RMB2.4 million which most affected by the staff streamline; it was also due to the decrease of rental and office expense and other administrative expense of approximately RMB2.5 million and RMB4.3 million respectively which were partly offset by the increase of amortization expense of approximately RMB2.5 million.

### *Other expenses, net*

For the year ended 31 December 2011, the other expenses, net of the Group amounted to approximately RMB0.9 million, representing a decrease of approximately 91% as compared with 2010 (2010: approximately RMB10.5 million). The decrease was mainly due to the combined effect of the decrease of impairment losses of approximately RMB2.6 million for the receivables for specific individual customers and other receivables that were in default, the write back of impairment of the receivables of approximately RMB3.6 million and the decrease of write-off of intangible asset which amounted to approximately RMB3.3 million.

### *Income tax*

For the year ended 31 December 2011, the income tax expenses of the Group amounted to approximately RMB5.2 million, representing a slight increase of 2.5% as compared with 2010 (2010: approximately RMB5.1 million).

The effective tax rate of the Group increased to approximately 28.9% in 2011 (2010: approximately 10.8%). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 0%, 15%, 24%, 25% for the respective operating subsidiaries of the Group for 2011 (2010: 0%, 15%, 22% and 25% respectively). The increase in the effective tax rate are due to the combined effect of the increase of the statutory tax rates of a certain subsidiary from 22% in 2010 to 24% in 2011 and the impact of income tax final settlement differences for 2010.

### *Liquidity and Financial Resources*

As at 31 December 2011, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, time deposits with original maturity of more than three months and investments at fair value through profit or loss amounted to approximately RMB434.4 million (2010 approximately RMB436.8 million). Approximately RMB405.2 million, or approximately 93% of the Group's cash and cash equivalents, was denominated in RMB.

As at 31 December 2011, the Group had borrowings amounted to RMB13 million, and the gearing ratio which is measured by the net borrowings over the total equity is 2.4%.

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 2011, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

### *Non-current Assets*

As at 31 December 2011, the total non-current assets of the Group amounted to approximately RMB141.1 million (2010: approximately RMB92.0 million). The increase was mainly due to the increase of the construction cost of A8 building and deposit for subscription of 42.69% of the enlarged share capital of Duomi Music which amounted to approximately RMB47.6 million and RMB8.0 million respectively. It was also due to the increase of intangible asset which amounted to approximately RMB17.6 million, part of which was transferred from the prepayment to an independent third party as mentioned in Note 10 of approximately RMB22.1 million in 2010; Meanwhile, the investment in an associate increased by approximately RMB4.2 million which was partly offset by the decrease of goodwill related to the disposal of subsidiaries amounted to RMB2.2 million.

### *Current Assets and Current Liabilities*

As at 31 December 2011, the total current assets of the Group amounted to approximately RMB527.3 million (2010: approximately RMB549.0 million). The decrease was mainly due to the decrease of accounts receivable and the investment at fair value through profit or loss which amounted to approximately RMB28.3 million and RMB17.5 million respectively, which were partly offset by the cash inflow and increase of prepayments, deposits and other receivable which amounted to approximately RMB15.1 million and RMB9.0 million respectively. The turnover days of accounts receivable is 52 days (2010: 54 days).

As at 31 December 2011, the total current liabilities of the Group amounted to approximately RMB112.9 million (2010: approximately RMB117.6 million). The decrease was mainly due to the decrease of accounts payable, tax payable and deferred income of approximately RMB17.2 million and RMB3.5 million and RMB3.2 million respectively, which were partly offset by the increase of other payable and accruals of approximately RMB19.3 million.

### *Cash Flow*

Net cash inflow from operating activities of the Group for the year ended 31 December 2011 was approximately RMB23.9 million, resulted from cash generated from operations of approximately RMB32.2 million and tax paid of approximately RMB8.3 million.

Net cash outflow from investing activities of the Group for the year ended 31 December 2011 was approximately RMB66.5 million, resulted from the cash outflow of purchases of property, plant and equipment and additions to construction in progress, deposit for subscription of 42.69% of the enlarged share capital of Duomi Music, acquisition of associate and prepayment for acquisition of property, plant and equipment amounted to approximately RMB34.5 million, RMB8 million, RMB5.3 million and RMB4.6 million respectively, and it was also due to the decrease in short term time deposits more than three months of approximately RMB47 million which was partly offset by the cash inflow of proceeds from sales of investment at fair value through profit or loss and interest received amounted to approximately RMB17.3 million and RMB10.5 million respectively.

Net cash inflow from financing activities of the Group for the year ended 31 December 2011 was approximately RMB11.2 million, it was mainly resulted from cash inflow of the interest-bearing loan of approximately RMB13 million, which was partly offset by cash outflow of payment for purchase of award share which amounted to approximately RMB2.2 million.

### *Contingent Liabilities*

As at 31 December 2011, the Group did not have any material contingent liabilities.

### *Human Resources*

As at 31 December 2011, the Group employed 287 employees (2010: 377 employees). However, the average headcounts of year 2011 was 322 while it was 422 in year 2010. 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 2011, including directors' emoluments, amounted to approximately RMB57.7 million, representing a decrease of approximately 5.7% as compared with 2010. (2010: approximately RMB61.2 million), which was mainly due to the combine effect of staff streamline, wage growth and housing fund policy implemented from December 2010 in Shenzhen.

### *Significant Event*

As at 31 December 2011, the Group had no significant event.

## **Business Outlook for 2012**

Looking forward to 2012, the MVAS market will face uncertainty and difficulty. The Group's management aims to strengthen the following business operations:

For traditional business, we will continue to strengthen our cooperation with China Telecom and China Unicom in order to grasp the development opportunity of wireless music for current businesses. Our forecast on the scale of music market for China Mobile remains steady while China Unicom and China Telecom present rapid growth. We will retain the leading NO.1 position for China Mobile and move up to first tier for China Telecom and China Unicom backed by our resources on contents and promotion channel.

For mobile Internet business, it is estimated that the smart phone's market share will reach 50% in 2012 as 3G and smart phone sales grow rapidly. We will provide professional music solutions for mobile Internet channel and mobile manufactures to follow the trend. The Group will consolidate the current project's operation including Nokia and Samsung, and will speed up the cooperation with famous domestic international brand handset manufacturers including ZTE, Sony Ericsson and target to gain more market share. At the same time, we will integrate the settlement channels including telecom operators, Alipay, Unionpay in order to generate more revenue from the operation of channels and contents.

For music contents, the Group will optimize the “Composer Plan” to improve the song’s quality and attract top artists to be involved and will cooperate with artists deeply. We will continue to strength A8.com website as a platform for artists and users and will kick off the ‘Seventh A8 Original China Music Contest’ in May to build valuable high quality UGC contents.

Regarding to music cloud business in 2012, the Group will further integrate and optimize the resources of associated company to reduce the operating cost, improve efficiency, encourage innovation and speed up the development towards social network. Meanwhile, we will keep the leading position of Duomi Music’s software on the scales of total users and newly registered users.

The Board of A8 Music will continually work with all staffs for the sustainable development of the company.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the year of 2011, based on the Company’s instruction, the trustee has purchased 372,000 Shares, 132,000 Shares, 100,000 Shares, 150,000 Shares, 612,000 Shares and 388,000 Shares on 11 January, 12 January, 9 June, 20 June, 21 September and 22 September respectively from the market for the purpose of the Share Award Scheme, the aggregate price paid by the Company were HK\$951,574.21, HK\$336,808.56, HK\$185,666.00, HK\$249,715.93, HK\$538,050.91 and HK\$336,968.98 respectively.

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company’s listed securities during the year.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Group is committed to achieving high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability.

Good corporate governance has always been recognised as vital to the Group’s success and to sustaining development of the Group. The Group is committed to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of the business of the Group.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The CG Code sets out the principles of good corporate governance and two levels of corporate governance practices:

- (a) code provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and
- (b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or to give considered reasons for deviation.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code. Throughout the year ended 31 December 2011, the Company has complied with the code provisions as set out in the CG Code, except for the deviation from code provision A.2.1.

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.

Mr. Liu Xiaosong (the "Mr. Liu" 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 2011.

The Company has also put in place certain recommended best practices as set out in the CG Code. The Company regularly reviews its corporate governance practices to ensure compliance with the CG Code. 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.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted its Own Code of conduct regarding directors' dealings in the Company's Securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

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 2011.

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 unpublished price-sensitive information of the Company.

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

## AUDIT COMMITTEE

The Audit Committee of the Company 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 2011.

By order of the Board  
**A8 Digital Music Holdings Limited**  
**Liu Xiaosong**  
*Chairman*

Hong Kong, 27 March 2012

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

- (1) executive Directors namely Mr. Liu Xiaosong and Mr. Lu Bin; and*
- (2) independent non-executive Directors namely Mr. Chan Yiu Kwong, Mr. Zeng Liqing and Ms. Wu Shi Hong.*