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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)**

**DISCLOSEABLE AND CONNECTED TRANSACTION  
IN RELATION TO  
THE SECOND DUOMI MUSIC SHARE SUBSCRIPTION**

**THE SECOND DUOMI MUSIC SHARE SUBSCRIPTION**

Reference is made to the announcements of the Company dated 19 September 2011, 21 December 2011 and 23 April 2012 in relation to, among other things, the subscription of approximately 42.69% of the share capital of Duomi Music by Phoenix Success, a wholly-owned subsidiary of the Company (i.e. the First Duomi Music Share Subscription).

Further to the First Duomi Music Share Subscription, the Board is pleased to announce that on 17 September 2012, the Duomi Group, the Founders, the Existing Duomi Music Shareholders and the Subscribers entered into the Second Duomi Music Share Subscription Agreement, pursuant to which (i) Phoenix Success conditionally agreed to subscribe for 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full ) at the total consideration of US\$6 million (equivalent to approximately HK\$46.8 million); and (ii) Huayi and Hina conditionally agreed to subscribe for 6,933,146 and 2,311,049 Duomi Music Preferred Shares, respectively, at the consideration of US\$3 million (equivalent to approximately HK\$23.4 million) and US\$1 million (equivalent to approximately HK\$7.8 million) respectively.

Upon conversion of the Duomi Music Preferred Shares in full, Phoenix Success will hold a total of 50,247,228 Duomi Music Shares (representing approximately 40.44% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full).

**IMPLICATIONS UNDER THE LISTING RULES**

Given that (1) Fortune Light, a 41.57% shareholder of Duomi Music, is owned as to 100% by Mr. Liu and is an Associate of Mr. Liu; and (2) Mr. Liu is an executive Director and a Substantial Shareholder of the Company, Duomi Music is a Connected Person of the Company and the Second Duomi Music Share Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios set out under the Listing Rules in respect of the Second Duomi Music Share Subscription (together with the First Duomi Music Share Subscription which was completed on 23 April 2012) exceed 5% but are less than 25%, the Second Duomi Music Share Subscription also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

The Second Duomi Music Share Subscription is subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

The EGM will be held to consider and, if thought fit, approve by the Independent Shareholders by way of ordinary resolution in relation to the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder. Mr. Liu and his Associates will be required to abstain from voting at the EGM.

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder. Guangdong Securities has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (a) further details of the Second Duomi Music Share Subscription; (b) the letter from the Independent Board Committee; (c) the letter from Guangdong Securities to the Independent Board Committee and the Independent Shareholders; and (d) a notice convening the EGM, will be despatched to the Shareholders on or before 10 October 2012.

**The Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder are subject to a number of conditions precedent and may or may not proceed to Completion and Shareholders and prospective investors of the Company are reminded to exercise caution when dealing in the Shares.**

Reference is made to the announcements of the Company dated 19 September 2011, 21 December 2011 and 23 April 2012 in relation to, among other things, the subscription of approximately 42.69% of the share capital of Duomi Music by Phoenix Success, a wholly-owned subsidiary of the Company (i.e. the First Duomi Music Share Subscription).

Further to the First Duomi Music Share Subscription, the Board is pleased to announce that on 17 September 2012, the Duomi Group, the Founders, the Existing Duomi Music Shareholders and the Subscribers entered into the Second Duomi Music Share Subscription Agreement, pursuant to which (i) Phoenix Success conditionally agreed to subscribe for 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full) at the total consideration of US\$6 million (equivalent to approximately HK\$46.8 million); and (ii) Huayi and Hina conditionally agreed to subscribe for 6,933,146 and 2,311,049 Duomi Music Preferred Shares, respectively, at the consideration of US\$3 million (equivalent to approximately HK\$23.4 million) and US\$1 million (equivalent to approximately HK\$7.8 million) respectively.

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## **THE SECOND DUOMI MUSIC SHARE SUBSCRIPTION AGREEMENT**

The principal terms of the Second Duomi Music Share Subscription Agreement are set out below:-

**Date:**

17 September 2012

**Parties:**

The Duomi Group:            Duomi Music

Boundless Melody Hong Kong Limited  
Beijing Huanwu Yuedong Internet Technology Co., Ltd.  
Rainbow Online

The Founders: Mr. Shi Jimmy Jian-Ping  
Mr. Feng Yousheng  
Mr. Liu

The Existing Duomi Music Shareholders: Bile Investments Limited  
Beyond Faith Limited  
Hero Victory Investments Limited  
Fortune Light  
Phoenix Success

The Subscribers: Huayi  
Hina  
Phoenix Success

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Founders (other than Mr. Liu), the Existing Duomi Music Shareholders (other than Fortune Light and Phoenix Success), the Subscribers (other than Phoenix Success), their respective shareholders and ultimate beneficial owner(s) (where applicable), and their respective associates are Independent Third Parties.

**Shareholding interest to be subscribed by the Subscribers:**

Phoenix Success conditionally agreed to subscribe for 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full).

Huayi and Hina conditionally agreed to subscribe for 6,933,146 and 2,311,049 Duomi Music Preferred Shares respectively.

**Major Conditions precedent:**

The obligations of each Subscriber to subscribe for the Duomi Music Preferred Shares and pay consideration are subject to the fulfillment or waiver in writing by such Subscribers of the following conditions on or prior to the Completion Date:

- (a) all necessary consents from, waiver of or filings with any authority in any such jurisdictions required to be obtained or made, or with any other person in relation to the transactions contemplated under the Second Duomi Music Share Subscription Agreement shall have been obtained or made;
- (b) the shareholders meeting and the board of directors of each member of the Duomi Group shall have approved the transactions contemplated under the Second Duomi Music Share Subscription Agreement; including without limitation approving the issuance of the Duomi Music Preferred Shares and the observer designated by the Subscribers to the board of directors of Duomi Music upon Completion;
- (c) the representations and warranties made by the Duomi Group, the Founders and the Existing Shareholders in the Second Duomi Music Share Subscription Agreement remain accurate, true, complete and not misleading in all major and material respects at the Completion Date;
- (d) none of the Duomi Group, the Founders and the Existing Shareholders has received, or to the knowledge of any of them, will receive any notice of any injunction or other order, directive or notice restraining or

prohibiting the consummation of the transactions contemplated by the Second Duomi Music Share Subscription Agreement and other transaction documents and there shall be no action seeking to restrain or prohibit the consummation thereof, or seeking damages in connection therewith, which is pending or any such injunction, other order or action which is threatened;

- (e) Unless otherwise disclosed to the Subscribers, there shall have been no material adverse change in the business, operations, assets, liabilities, financial condition or prospects of the Duomi Group since the date of the Second Duomi Music Share Subscription Agreement;
- (f) Duomi Music shall have filed the amended and restated memorandum and articles of association;
- (g) Duomi Music shall deliver to the Subscribers opinions, in connection with the transactions contemplated by or referred to in the Second Duomi Music Share Subscription Agreement, from a qualified legal counsel of Cayman Islands and a qualified legal counsel of the PRC, dated as at the Completion Date, in the form and substance reasonably satisfactory to the Subscribers;
- (h) the following agreements and documents shall have been duly executed by the Duomi Group, the Founders or the key management of the Duomi Group:
  - (i) the Shareholders Agreement;
  - (ii) a letter of commitment on non-competition from each of the key management of the Duomi Group in such form and substance reasonably satisfactory to the Subscribers; and
  - (iii) a letter of undertaking on non-competition from the Company and Phoenix Success in such form and substance reasonably satisfactory to the Subscribers.

The obligations of Duomi Music to issue and allot the Duomi Music Preferred Shares to each Subscriber are subject to the fulfillment or waiver in writing by Duomi Music of the following conditions on or prior to the Completion Date:

- (a) each Subscriber shall have obtained any and all approval from its internal authority with respect to the transactions contemplated by the Second Duomi Music Share Subscription Agreement and other transaction documents, including without limitation the duly adopted shareholders resolution of the Company;
- (b) the representations and warranties of such Subscriber remain true and not misleading in all major and material respects at the Completion Date;
- (c) the Subscriber shall have not received, or to the knowledge of such Subscriber, any notice of any injunction or other order, directive or notice restraining or prohibiting the consummation of the transactions contemplated by the Second Duomi Music Share Subscription Agreement and other transaction documents and there shall be no action seeking to restrain or prohibit the consummation thereof, or seeking damages in connection therewith, which is pending or any such injunction, other order or action which is threatened;
- (d) the Shareholders Agreement shall have been executed and delivered by such Subscriber to Duomi Music.

**Completion:**

Completion shall take place on the Completion Date.

**Non-competition undertaking:**

Under the Second Duomi Music Share Subscription Agreement, Phoenix Success and the Company, as the Associates of Mr. Liu, will undertake and commit that:

The Company and Phoenix Success shall issue a written notice to Duomi Music and Huayi if during (i) the period in which Mr. Liu owns any equity securities of any member of the Duomi Group; and (ii) one (1) year after the date on which Mr. Liu ceases to own any equity securities of any member of the Duomi Group: it has made any equity investment in any competitive company, if (i) the pre-money valuation of the competitive company equals or more than RMB 30,000,000.00; (ii) it will hold 20% or more of the equity interest in the competitive company after the investment; (iii) the competitive company is an affiliate of Kugou.com, kuwo.cn or xiami.com; or (iv) the aggregate amount invested in a single competitive company by it exceeds RMB 10,000,000.

**Consideration:**

The consideration to be paid by Phoenix Success for the subscription of 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full) is US\$6 million (equivalent to approximately HK\$46.8 million), which was determined based on arm's length negotiation between Phoenix Success and Duomi Music with reference to the appraised fair value of 100% of the shareholder equity of Duomi Music of RMB282 million (equivalent to approximately HK\$343.9 million) as at 30 June 2012 as per a valuation report prepared by Asset Appraisal Limited.

The consideration to be paid by Huayi and Hina for the subscription of 6,933,146 and 2,311,049 Duomi Music Preferred Shares respectively is US\$3 million (equivalent to approximately HK\$23.4 million) and US\$1 million (equivalent to approximately HK\$7.8 million) respectively, which were determined based on arm's length negotiation between Huayi, Hina and Duomi Music with reference to the appraised fair value of 100% of the shareholder equity of Duomi Music as mentioned above.

The subscription price per Preferred Share to be paid by the Company, Huayi and Hina is definitely the same.

Each of the Subscribers shall pay 70% of its aggregate subscription price on the Completion Date. If the User Targets Accomplishment Rate (as defined in the section headed "Valuation adjustment" below) reaches 90% before 31 December 2012, the remaining 30% of the aggregate subscription price shall be paid within 10 Business Days after the issuance of a written notice by Duomi Music to the Subscribers indicating that its User Targets Accomplishment Rate reaches 90%. However, if the User Targets Accomplishment Rate has never reached the 90% target on the last day of a calendar month of September, October, November and December 2012, the parties to the Second Duomi Music Share Subscription Agreement shall take all necessary actions to ensure the completion of the valuation adjustment as set out in the section headed "Valuation adjustment" below.

**Valuation adjustment:**

It is one of the conditions precedent to the Second Duomi Music Share Subscription Agreement that the parties to the Second Duomi Music Share Subscription Agreement to execute the Shareholders Agreement.

Pursuant to the proposed terms of the Shareholders Agreement, within 30 days following 31 December 2012, Duomi Music shall issue a written notice to the Subscribers regarding whether the User Targets Accomplishment Rate reaches 90%. If not, a specific valuation adjustment plan shall be made according to the relevant methods of adjustment (if applicable). Within three months after the issuance of the above written notice, the parties to the Shareholders Agreement shall take all necessary actions to ensure the completion of the valuation adjustment.

By 31 December 2012, if Duomi Music acquires the target number or more Accumulated Users and the target number or more Monthly Active Users, the fully diluted post-money valuation of Duomi Music shall remain as US\$53,800,000 (equivalent to approximately HK\$419,640,000).

By 31 December 2012, if Duomi Music's actual User Targets Accomplishment Rate (as defined below) is less than 90%, the fully-diluted post-money valuation of Duomi Music shall be adjusted downward based on the

following formula applicable to the relevant Subscribers:

Actual fully-diluted post-money valuation (the “**Actual Fully-Diluted Post-Money Valuation**”) =  $T \times A$   
where,

“T” = the User Targets Accomplishment Rate  
“A” = US\$53,800,000 (equivalent to approximately HK\$419,640,000)

User Targets Accomplishment Rate (the “**User Targets Accomplishment Rate**”) =  $C/R \times 50\% + D/S \times 50\%$   
where,

“C” = the total number of actual Accumulated Users on the last day of a calendar month  
“R” = the target number of Accumulated Users  
“D” = the total number of actual Monthly Active Users on the last day of the same calendar month  
“S” = the target number of Monthly Active Users

For the avoidance of doubt, if the User Targets Accomplishment Rate reaches 90% by 31 December 2012, no adjustment shall be made to the fully-diluted post-money valuation of Duomi Music.

In the event the Actual Fully-Diluted Post-Money Valuation adjusted is less than 70% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000), the Subscribers do not need to pay the Final Installment or any additional consideration, while the shareholding percentage of each Subscriber in Duomi Music (calculated on a fully diluted and as-converted basis) shall be calculated based on the following formula:

The shareholding percentage of the Duomi Music Preferred Shares of the Subscriber in Duomi Music (calculated on a fully diluted and as-converted basis; for the avoidance of doubt, without any ESOP) =  $M/N$   
where,

“M” = the First Installment  
“N” = the Actual Fully-Diluted Post-Money Valuation

In the event the Actual Fully-Diluted Post-Money Valuation is 70% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000) or more but less than 90% of such amount, the Subscribers shall pay the Final Installment but the Final Installment shall be calculated based on the following formula:

The Final Installment =  $N \times O - M$   
where,

“N” = the Actual Fully-Diluted Post-Money Valuation  
“O” = the Subscriber’s then shareholding percentage of the Duomi Music Preferred Shares in Duomi Music (calculated on a fully diluted and as-converted basis; for the avoidance of doubt, without any ESOP)  
“M” = the First Installment

### **Board composition:**

Pursuant to the proposed terms of the Shareholders Agreement, the board of directors of Duomi Music shall consist of five directors. Phoenix Success shall be entitled to nominate two directors of Duomi Music and Fortune Light shall be entitled to nominate one director of Duomi Music, and the other two directors of Duomi Music shall be nominated by unanimous consent of all the three directors nominated by Phoenix Success and Fortune Light out of the management of Duomi Music.

Duomi Music shall invite one representative of each Subscriber that is not entitled to appoint any director of Duomi Music (the “**Board Observer(s)**”) to attend all meetings of the board of directors of Duomi Group and all committees thereof in a non-voting observer capacity, and shall provide the Board Observers concurrently with the members of the board of directors of Duomi Music, and in the same manner notices of such meetings and all materials provided to such members. The Board Observers shall have access to all information granted to any director of Duomi Music for as long as such Subscriber holds the Duomi Music Preferred Shares which,

on an as-converted basis, equal to 3% or more of the total ordinary shares of Duomi Music after conversion.

## **THE DUOMI MUSIC PREFERRED SHARES**

### **Conversion right:**

Holders of the Duomi Music Preferred Shares shall have the following rights with respect to the conversion of the Duomi Music Preferred Shares into Duomi Music Shares:

#### *Conversion price*

The number of Duomi Music Shares to which a holder shall be entitled upon conversion of any Duomi Music Preferred Share shall be the quotient of the original issue price divided by the applicable conversion price.

#### *Optional Conversion*

The holder of any Duomi Music Preferred Share shall have the option to request that all (but not less than all) the Duomi Music Preferred Shares it holds be converted at any time, without the payment of any additional consideration, into fully-paid and non-assessable Duomi Music Shares.

#### *Automatic Conversion*

Each Duomi Music Preferred Share shall automatically be converted, based on the applicable conversion price, without the payment of any additional consideration, into Duomi Music Shares upon the earlier of (i) the closing of the Qualified IPO, or (ii) the date upon which Duomi Music obtains the vote or consent of the holders of at least 80% of the then outstanding Duomi Music Preferred Shares voting together as a single class.

#### *Adjustment of conversion price*

The initial conversion price shall be the original subscription price. The applicable conversion price shall be adjusted from time to time as stipulated in the Shareholders Agreement.

### **Redemption right**

At any time and from time to time beginning from the fourth anniversary of the Completion Date, each of the shareholders of Duomi Music shall take all necessary actions to cause Duomi Music to redeem all (but not less than all) of the Duomi Music Preferred Shares held by any of the Subscribers (as applicable), upon such Subscriber's written request to Duomi Music, for a redemption price per share equal to 140% of the subscription price of the Duomi Music Preferred Shares plus all accrued but unpaid dividends. The redemption price shall be subject to adjustments for the same reasons for adjustment of the conversion price.

### **Termination of the redemption right**

If Duomi Music's pre-money valuation equals to US\$107,600,000 (equivalent to approximately HK\$839,280,000) or more in any further round of financing, merger and acquisition or other exiting opportunities for the Subscribers, the Subscribers' redemption rights shall be automatically terminated once such further round financing is closed; provided, however, that the amount of the further round financing (excluding any amount invested by Phoenix Success and one of the Founders, Mr. Liu, in such further round financing, if any) shall not be less than US\$10,000,000 (equivalent to approximately HK\$78,000,000) if such further round financing is in the form of issuance of additional shares of Duomi Music.

### **Dividend rights**

In the event Duomi Music shall declare a distribution, all shareholders of Duomi Music shall be entitled to a proportionate share of any such distribution based on their respective pro rata shares (calculated on a fully diluted and as-converted basis) as at the time of such declaration (or in the event such record date is fixed, as at the close of business on such record date). No dividend shall be paid to other shareholders of Duomi Music

unless and until a dividend is first paid in full to the Subscribers.

## **INFORMATION ON THE DUOMI GROUP**

Duomi Music is a company incorporated under the laws of the Cayman Islands. The Duomi Group is principally engaged in providing online and connected digital music services directly to consumers.

The consolidated loss (both before and after taxation and extraordinary items) of the Duomi Group for the year ended 31 December 2010, 31 December 2011 and the eight months ended 31 August 2012 according to the management accounts prepared under the PRC generally accepted accounting principle were approximately RMB 14,462,896 (equivalent to approximately HK\$17,637,678), RMB23,286,989 (equivalent to approximately HK\$28,398,767) and RMB31,437,619 (equivalent to approximately HK\$38,338,560) respectively.

The consolidated net liability of the Duomi Group for the year ended 31 December 2010, 31 December 2011 and the eight months ended 31 August 2012 according to the management accounts prepared under the PRC generally accepted accounting principle were approximately RMB 13,816,147 (equivalent to approximately HK\$16,848,960) , RMB5,753,136 (equivalent to approximately HK\$7,016,019) and RMB25,718,430 (equivalent to approximately HK\$31,363,939) respectively.

## **REASONS FOR THE SECOND DUOMI MUSIC SHARE SUBSCRIPTION**

The Group is principally engaged in providing mobile value-added services, focusing on music and culture related content through mobile phones in the PRC.

As disclosed in the Company's announcement dated 19 September 2011, the Company would closely monitor the business development and performance of the Duomi Group and in the future might increase its shareholding interest in Duomi Music through Phoenix Success or the Company when the Board considers the same being appropriate and in the interests of the Company and the Shareholders as a whole after taking into account factors such as the future business prospect and performance of the Duomi Group, the prevailing market conditions and investment environment and the business opportunities by then available to the Company.

The business development and performance of the Duomi Group has made encouraging progress since November last year. As disclosed in the annual report of the Company for the year ended 31 December 2011, according to the wireless music market research report in 2011 published by Iimedia Research Group, the software of Duomi Music ranked No.1 on the scale of total users and newly registered users in 2011 in whole music industry. The Board considers that the further investments by the Company through Phoenix Success in the Duomi Group by the Second Duomi Music Share Subscription would integrate the strong aspects and provide synergy to the music cloud business of the Company and the Duomi Group, which will enhance the Group's market share and strengthen the Group's market position in digital music sector and would help the Group to achieve its goal to be the leading digital music service provider in the PRC.

The total consideration payable by Phoenix Success for the Second Duomi Music Share Subscription will be funded by the Group's internal cash resources. The terms of the Second Duomi Music Share Subscription Agreement are on normal commercial terms and have been arrived at after arm's length negotiation between Phoenix Success and Duomi Music. The Directors (excluding the independent non-executive Directors who will provide their view after considering the advice from Guangdong Securities) consider that the terms of the Second Duomi Music Share Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and that the Second Duomi Music Share Subscription is in the interests of the Company and the Shareholders as a whole.

## **CHANGES IN THE SHAREHOLDING STRUCTURE OF DUOMI MUSIC**

The shareholding structure of Duomi Music after Completion is as follows:-



Shareholders of Duomi Music	As at the date of this announcement		Immediately after the Completion (assuming no option under the existing ESOP has been exercised)		Immediately after the Completion (assuming options under the existing ESOP have been exercised in full)		Immediately after the Completion (assuming options under the existing ESOP and additional ESOP have been exercised in full)	
	Number	%	Number	%	Number	%	Number	%
Phoenix Success	36,393,360	42.69	50,247,228	46.38	50,247,228	40.44	50,247,228	37.44
Fortune Light	35,435,640	41.57	35,435,640	32.71	35,435,640	28.52	35,435,640	26.41
Hero Victory Investments Limited	7,661,760	8.99	7,661,760	7.07	7,661,760	6.17	7,661,760	5.71
Bile Investments Limited	3,264,694	3.83	3,264,694	3.01	3,264,694	2.63	3,264,694	2.43
Beyond Faith Limited	2,489,328	2.92	2,489,328	2.30	2,489,328	2.00	2,489,328	1.86
Huayi	-	-	6,933,146	6.40	6,933,146	5.58	6,933,146	5.17
Hina	-	-	2,311,049	2.13	2,311,049	1.86	2,311,049	1.72
the existing ESOP	-	-	-	-	15,907,090	12.80	15,907,090	11.85
The additional ESOP	-	-	-	-	-	-	9,939,995	7.41
<b>Total</b>	<b>85,244,782</b>	<b>100.00</b>	<b>108,342,845</b>	<b>100</b>	<b>124,249,935</b>	<b>100</b>	<b>134,189,930</b>	<b>100</b>

*Note: Duomi Music has adopted the existing ESOP to motivate the senior management and staff of Duomi Music. As at the date of this announcement, a total of 14,755,218 options entitling its holder(s) to subscribe for a total of 14,755,218 new Duomi Music Shares have been granted under the existing ESOP. Pursuant to the existing shareholder agreement dated 23 April 2012 entered into by Duomi Music and all of its shareholders, until immediately prior to the initial public offering of Duomi Music, if new shares of Duomi Music to be allotted and issued, some management of Duomi Music shall be granted with additional options so that their respective percentages of share options (on fully-exercised base) in the total issued shares of Duomi Music shall remain the same (4.75% in total) and at the same price as the price of any new securities to be issued by Duomi Music. Thus, Duomi Music will grant additional options to the management to maintain the 4.75% share option percentage in the total issued and outstanding shares of Duomi Music on an as exercised and fully diluted basis and the cost will be borne by the Existing Duomi Music Shareholders. For the avoidance of doubt, the share percentage of Duomi Music Preferred Shares held by Phoenix Success, Huayi, and Hina shall and will not be affected by the anti-dilution of management ESOP arrangement.*

*After the Completion, Duomi Music shall and the parties to the Second Duomi Music Share Subscription Agreement hereto shall procure Duomi Music to reserve an additional ESOP equal to 7.41% of Duomi Music's then total share capital assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP as well as the additional ESOP in full, for allocation to employees, officers, directors or consultants of the Duomi Group pursuant to bona fide employment-related share purchase or option plans to be approved by the board of directors of Duomi Music.*

## IMPLICATIONS UNDER THE LISTING RULES

Given that (1) Fortune Light, a 41.57% shareholder of Duomi Music, is owned as to 100% by Mr. Liu and is an Associate of Mr. Liu; and (2) Mr. Liu is an executive Director and a Substantial Shareholder of the Company, Duomi Music is a Connected Person of the Company and the Second Duomi Music Share Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

As the relevant applicable percentage ratios set out under the Listing Rules in respect of the Second Duomi Music Share Subscription (together with the First Duomi Music Share Subscription) exceed 5% but are less than 25%, the Second Duomi Music Share Subscription also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

The Second Duomi Music Share Subscription is subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

The EGM will be held to consider and, if thought fit, approve by the Independent Shareholders by way of ordinary resolution in relation to the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder. Mr. Liu and his Associates will be required to abstain from voting at the EGM.

The Independent Board Committee (comprising all the independent non-executive Directors) has been formed to advise the Independent Shareholders on the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder. Guangdong Securities has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other things, (a) further details of the Second Duomi Music Share Subscription; (b) the letter from the Independent Board Committee; (c) the letter from Guangdong Securities to the Independent Board Committee and the Independent Shareholders; and (d) a notice convening the EGM, will be despatched to the Shareholders on or before 10 October 2012.

**The Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder are subject to a number of conditions precedent and may or may not proceed to Completion and Shareholders and prospective investors of the Company are reminded to exercise caution when dealing in the Shares.**

## DEFINITIONS

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

“Accumulated Users”	the total number of Users accumulated since the date of first launch of Duomi music service (i.e. since January 2009)
“Associate”	has the meaning ascribed to the term under the Listing Rules
“Board”	the board of Directors
“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)
“Completion”	the subscription and allotment and issuance of the Duomi Music Preferred Shares

“Completion Date”	The third business day after the fulfillment or waiver of the conditions precedent to the Second Duomi Music Share Subscription Agreement
“Connected Person”	has the meaning ascribed to the term under the Listing Rules
“Director(s)”	the director(s) of the Company
“Domestic Companies”	Rainbow Online, Beijing Haoyinwei Internet Technology Co., Ltd., Beijing Mianzhi Internet Technology Co., Ltd., Shenzhen Qingsheng Tongyin Technology Co., Ltd., Shenzhen Huiyin Chuangshi Technology Co., Ltd. and Shenzhen Kaixinting Information and Technology Co., Ltd.
“Duomi Group”	Duomi Music and its subsidiaries
“Duomi Music”	Duomi Music Holding Ltd, a company incorporated in the Cayman Islands on 20 December 2011 which is authorised to issue a maximum of 500,000,000 shares with par value of US\$0.0001 each
“Duomi Music Preferred Share(s)”	the convertible, redeemable and participating preferred shares of Duomi Music with par value of US\$0.0001 each
“Duomi Music Share(s)”	ordinary share(s) of US\$0.0001 each in the capital of Duomi Music
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve by the Independent Shareholders the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder
“ESOP”	the employee share option plan adopted by Duomi Music
“Existing Duomi Music Shareholders”	Bile Investments Limited, Beyond Faith Limited, Hero Victory Investments Limited, Fortune Light and Phoenix Success
“Final Installment”	the remaining 30% of the aggregate subscription price to be paid by the Subscribers
“First Duomi Music Share Subscription”	the subscription of approximately 42.69% of the share capital of Duomi Music by Phoenix Success which was completed on 23 April 2012
“First Installment”	the 70% of the aggregate subscription price to be paid by the Subscribers on the Completion Date
“Fortune Light”	Fortune Light Investments Limited, a company incorporated in the British Virgin Islands on 12 December 2011 and wholly owned by Mr. Liu
“Founder(s)”	Mr. Shi Jimmy Jian-Ping, Mr. Feng Yousheng and Mr. Liu
“Group”	the Company and its subsidiaries
“Guangdong Securities” or “Independent Financial Adviser”	Guangdong Securities Limited, a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as

defined under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder

“Hina”	Hina Group Fund L.P., a partnership established and validly existing under the laws of the Cayman Islands
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Huayi”	Huayi Brothers International Investment Ltd., a company duly established and validly existing under the laws of the British Virgin Islands and a subsidiary of Huayi Brothers Media Corporation (華誼兄弟傳媒股份有限公司), the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300027.SZ))
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Mr. Liu and his Associates
“Independent Third Parties”	third parties and their ultimate beneficial owner(s) which are independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Monthly Active Users”	the total number of Users who connects to Duomi back-end service at least once via Duomi Mobile Client in a one-calendar-month duration
“Mr. Liu”	Mr. Liu Xiaosong, an executive Director and a Substantial Shareholder of the Company
“percentage ratios”	has the meaning ascribed to the term under Chapter 14 of the Listing Rules
“Phoenix Success”	Phoenix Success Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China, and, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Qualified IPO”	an IPO in the United States of America pursuant to an effective registration under the Securities Act or on a reputable stock exchange in Tokyo, London, Hong Kong, Singapore or such reputable stock

exchange as may be determined by the Company, with the market capitalisation of at least of US\$107,600,000 (equivalent to approximately HK\$839,280,000) and gross proceeds to Duomi Music of not less than 20% of such market capitalisation

“Rainbow Online”	Beijing Rainbow Online Technology Development Co., Ltd (北京彩雲在線技術開發有限公司), a limited liability company incorporated under the laws of the PRC. As at the date of this announcement, the subsidiaries of Rainbow Online include Beijing Haoyinwei Internet Technology Co., Ltd. (北京好音味網絡科技有限公司), Beijing Mianzhi Internet Technology Co., Ltd. (北京勉致網絡科技有限公司), Shenzhen Qingsheng Tongyin Technology Co., Ltd. (深圳市磬笙同音科技有限公司), Shenzhen Huiyin Chuangshi Technology Co., Ltd. (深圳市匯音創世科技有限公司), Shenzhen Kaixinting Information and Technology Co., Ltd. (深圳市開心聽信息科技有限公司)
“RMB”	Renminbi, the lawful currency of the PRC
“SAIC”	the State Administration for Industry and Commerce of the PRC or its local branch
“Second Duomi Music Share Subscription”	the subscription of 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full ) by Phoenix Success and the subscription of 6,933,146 and 2,311,049 Duomi Music Preferred Shares by Huayi and Hina respectively
“Second Duomi Music Share Subscription Agreement”	the subscription agreement entered into by the Duomi Group, the Founders, the Existing Duomi Music Shareholders and the Subscribers on 17 September 2012 in relation to the Second Duomi Music Share Subscription
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shareholders Agreement”	the shareholders agreement to be entered into by the parties to the Second Duomi Music Share Subscription Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	each/all of Phoenix Success, Huayi and Hina
“Substantial Shareholder”	has the meaning ascribed to the term under the Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Repurchases issued by the Securities and Futures Commission of Hong Kong
“User”	a person who has installed “Duomi Mobile Client” (多米移動客戶端) and has used Duomi Mobile Client to connect to Duomi back-end services at least once
“US\$”	United States dollars, the lawful currency of the United States of

America

“%”

Percent

*In this announcement, amounts denominated in US\$ have been converted into HK\$ at the rates of US\$1 = HK\$7.8; and 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, 17 September 2012

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

- (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 Shihong.*