THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in A8 Digital Music Holdings Limited ("**Company**"), you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities of the Company.

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)

(i) PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY EXISTING SHARE HELD ON THE RECORD DATE;
(ii) APPLICATION FOR THE WHITEWASH WAIVER;
AND
(iii) NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

粵海證券有限公司
GUANGDONG SECURITIES LIMITED

Terms used in this cover page have the same meanings as defined in this circular.

A letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders in connection with the Rights Issue and the Whitewash Waiver, is set out on pages 31 to 32. A letter from Guangdong Securities to the Independent Board Committee and the Independent Shareholders, containing its advise in connection with the Rights Issue and the Whitewash Waiver, is set out on pages 33 to 53 of this circular.

A notice convening the EGM to be held at 10:30 a.m. on Tuesday, 19 February 2013 at Units 3306-12, 33/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

The Rights Issue is conditional upon the fulfilment of the conditions sets out under the paragraph headed "Conditions of the Rights Issue" in the section headed "Letter from the Board" on pages 11 to 30 of this circular. In particular, the Rights Issue is conditional upon the Whitewash Waiver having been granted by the Executive and the approval of the Rights Issue and the Whitewash Waiver by the Independent Shareholders at the EGM by way of poll.

The Underwriting Agreement contains provisions granting the Underwriter, by notice in writing, at any time prior to the Latest Time for Termination, the right to terminate its obligations thereunder on the occurrence of certain events, including but not limited to force majeure, as more particularly described in the section headed "Termination of the Underwriting Agreement" in this circular. The Rights issue is therefore also subject to the Underwriter not terminating the Underwriting Agreement. Accordingly, the Rights Issue may or may not proceed.

The Shares will be dealt in on an ex-rights basis from Thursday, 21 February 2013. Dealings in the Rights Shares in the nil-paid form are expected to take place from Monday, 4 March 2013 to Monday, 11 March 2013 (both days inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated by the Underwriter on or before 4:00 p.m., Monday, 18 March 2013 (or such later time and/or date as the Company and the Underwriter may agree), the Rights Issue will not proceed. Any persons contemplating buying or selling Share from the date of the First Announcement up to the date of which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Monday, 4 March 2013 to Monday, 11 March 2013 (both days inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating dealing in the Shares or nil-paid Rights Shares are recommended to consult their own professional adviser.

30 January 2013

CONTENT

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

"acting in concert"	has the meaning ascribed thereto in the Takeovers Code
"Announcements"	the announcements of the Company dated 6 January 2013, 10 January 2013 and 25 January 2013 in relation to, among other things, the Rights Issue and the Whitewash Waiver
"associates"	has the same meaning as ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day (excluding Saturday, Sunday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for general business
"BVI"	the British Virgin Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Committed Shares"	an aggregate of 381,971,908 Rights Shares comprising (i) the 334,927,908 Rights Shares which the Underwriter has irrevocably undertaken to, and/or procure to, accept and pay for pursuant to the Underwriting Agreement (representing the Rights Shares to be provisionally allotted to the Underwriter and Prime Century); (ii) the 3,844,000 Rights Shares which Mr. Liu has irrevocably undertaken to accept and pay for pursuant to the Liu Undertaking (representing the Rights Shares to be provisionally allotted to Mr. Liu); and (iii) the 43,200,000 Rights Shares which Grand Idea has irrevocably undertaken to accept and pay for pursuant to the Grand Idea Undertaking (representing the Rights Shares to be provisionally allotted to Grand Idea)

"Company"	A8 Digital Music Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange
"Companies Ordinance"	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Concert Group"	the Underwriter and the parties acting in concert with it (including Mr. Liu, Prime Century and Grand Idea)
"Controlling shareholder"	has the meaning ascribed thereto in the Listing Rules
"Director(s)"	the director(s) of the Company
"Director Share Options"	the outstanding Share Options held by the Directors as at the date of the Director Undertakings
"Director Undertakings"	the Liu Undertaking and the Lu Undertaking
"EGM"	the extraordinary general meeting of the Company to be held at 10:30 a.m. on Tuesday, 19 February 2013 to consider and, if thought fit, approve, among other things (if any), the Rights Issue and the Whitewash Waiver
"Ever Novel" or "Underwriter"	Ever Novel Holdings Limited, a company incorporated in the BVI with limited liability whose issued share capital is 100% beneficially owned by a family trust set up by Mr. Liu for the benefit of his family members
"Executive"	the Executive Director of the Corporate Finance Division of Securities and Futures Commission of Hong Kong, or any delegate of the Executive Director
"Excluded Shareholder(s)"	Overseas Shareholder(s) in respect of whom the Directors, based on legal opinion(s) provided by legal adviser(s), consider it necessary or expedient not to offer the Rights Shares to such Overseas Shareholder(s) on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. The Excluded Shareholders (if any), for so long as they are Independent Shareholders, will be entitled to vote at the EGM

"First Announcement"	the announcement of the Company dated 6 January 2013 in relation to, among other things, the Rights Issue and the Whitewash Waiver
"First Supplemental Underwriting Agreement"	the supplemental agreement dated 10 January 2013 entered into between the Company and the Underwriter to amend certain terms of the Underwriting Agreement, details of which are set out in the announcement of the Company dated 10 January 2013
"Grand Idea"	Grand Idea Holdings Limited, a limited liability company incorporated in the BVI whose issued share capital is 100% beneficially owned by a family trust set up by Ms. Xie Yuanbi for the benefits of certain of her family members. Ms. Xie Yuanbi is the mother of Mr. Liu and Mr. Liu is not a beneficiary of such family trust
"Grand Idea Undertaking"	the irrevocable undertaking dated 25 January 2013 and executed by Grand Idea in favour of the Company whereby Grand Idea has undertaken, among other matters, to accept and pay for all 43,200,000 Rights Shares to be provisionally allotted to it on the Record Date
"Group"	the Company and its subsidiaries
"Guangdong Securities" or "Independent Financial Adviser"	Guangdong Securities Limited, a corporation licensed under the SFO 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 and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	a committee of the Board (comprising Mr. Chan Yiu Kwong, Mr. Zeng Liqing and Ms. Wu Shihong, all being independent non-executive Directors) established to advise the Independent Shareholders on the Rights Issue and the Whitewash Waiver

"Independent Shareholders"	Shareholders other than (i) the Underwriter and persons acting in concert with it; (ii) the controlling Shareholders (i.e. the Underwriter, Prime Century, Mr. Liu and Grand Idea) and their respective associates; and (iii) those who are involved in, or interested in, the Underwriting Agreement and/or the Whitewash Waiver
"Last Trading Day"	Friday, 4 January 2013, being the full trading day of the Shares on the Stock Exchange immediately prior to the publication of the First Announcement
"Latest Acceptance Date"	Thursday, 14 March 2013 or such other day as may be agreed between the Company and the Underwriter, being the latest time for acceptance of, and payment for, the Rights Shares and application for excess Rights Shares
"Latest Time for Acceptance of and Payment for Rights Shares"	4:00 p.m. on Thursday, 14 March 2013 or such other time or date as may be agreed between the Company and the Underwriter, being the latest time for acceptance of the offer of and payment for the Rights Shares and if there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on such day (i) at anytime before 12:00 noon and no longer in force after 12:00 noon, the Latest Time for Acceptance of and Payment for Rights Shares will be extended to 5:00 p.m. on the same Business Day; and (ii) at any time between 12:00 noon and 4:00 p.m., the Latest Time for Acceptance of and Payment for Rights Shares will be extended to the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 4:00 p.m.
"Latest Practicable Date"	25 January 2013, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Latest Time for Termination"	4:00 p.m. on the second Business Day immediately after the Latest Time for Acceptance of and Payment for Rights Shares, or such later time as may be agreed between the Company and the Underwriter.
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Liu Undertaking"	the irrevocable undertaking dated 4 January 2013 and executed by Mr. Liu in accordance with the Underwriting Agreement, whereby Mr. Liu has undertaken, among other matters, (i) not to exercise any of the subscription rights attaching to the Share Options granted to him to subscribe for 455,441 new Shares from the date of the irrevocable undertaking until the date on which trading of the Rights Shares (in their fully paid form) commences on the Stock Exchange; and (ii) to accept and pay for all 3,844,000 Rights Shares to be provisionally allotted to him on the Record Date
"Lu Undertaking"	the irrevocable undertaking dated 4 January 2013 and executed by Mr. Lu Bin, an executive Director, in accordance with the Underwriting Agreement whereby Mr. Lu has undertaken, among other matters, not to exercise any of the subscription rights attaching to the Share Options granted to him to subscribe for 2,340,000 new Shares from the date of the irrevocable undertaking until the date on which trading of the Rights Shares (in their fully paid form) commences on the Stock Exchange
"Mr. Liu"	Mr. Liu Xiaosong, the Chairman of the Company and an executive Director
"Overseas Shareholder(s)"	Shareholder(s) whose name(s) appear on the register of members of the Company at the close of business on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong
"PRC"	the People's Republic of China
"Prime Century"	Prime Century Technology Limited, a company incorporated in the BVI with Limited liability and owned as to 80.20% by Ever Novel. The remaining 19.80% of interest is held by Ms. Wang Gang. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Ms. Wang Gang did not hold any Share as at the Latest Practicable Date
"Profit Warning"	the announcement of the Company dated 24 December 2012 relating to the anticipated loss of the Group for the year ended 31 December 2012

"Prospectus"	the prospectus relating to the Rights Issue to be despatched to the Shareholders
"Prospectus Documents"	the Prospectus, the provisional allotment letter(s) and the form(s) of application for excess Rights Shares
"Prospectus Posting Date"	Thursday, 28 February 2013 or such other date as the Underwriter may agree in writing with the Company, being the date of despatch of the Prospectus Documents
"Qualifying Shareholder(s)"	Shareholder(s) whose name(s) appear(s) on the register of members of the Company as at the close of business on the Record Date, other than those Excluded Shareholders
"Record Date"	Wednesday, 27 February 2013, the record date to determine entitlements to the Rights Issue, or such other date as may be agreed between the Underwriter and the Company
"Relevant Period"	the period commencing on 4 July 2012 (being the date falling six months immediately prior to the date of the First Announcement) and ending on the Latest Practicable Date
"Rights Issue"	the proposed issue by way of rights of two Rights Shares for every existing Share in issue on the Record Date at a price of HK$0.36 per Rights Share
"Rights Share(s)	new Share(s) to be allotted and issued in respect of the Rights Issue (being not less than 952,564,752 and not more than 965,597,432 new Shares)
"Second Supplemental Underwriting Agreement"	the supplemental agreement dated 25 January 2013 entered into between the Company and the Underwriter to amend certain terms of the Underwriting Agreement, details of which are set out in the announcement of the Company dated 25 January 2013
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Share Options"	the outstanding options to subscribe for 9,311,781 new Shares granted to the Directors and employees of the Group pursuant to the Share Option Scheme as at the date of the original Underwriting Agreement

"Share Option Scheme"	the share option scheme (other than the Pre-IPO share option scheme of the Company) adopted by the Company on 26 May 2008
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the issue price of HK$0.36 per Rights Share at which the Rights Shares are proposed to be offer for subscription
"Takeovers Code"	the Code on Takeovers and Mergers of Hong Kong
"Underwriting Agreement"	the underwriting agreement entered into between the Company and Ever Novel dated 4 January 2013 in relation to the Rights Issue, as amended by the First Supplemental Underwriting Agreement and the Second Supplemental Underwriting Agreement
"Underwritten Shares"	the Rights Shares other than the Committed Shares (being not less than 570,592,844 Rights Shares (assuming no Shares have been allotted and issued before the Record Date pursuant to any exercise of the outstanding Share Options and that no Shares have been allotted and issued on or before the Record Date) and not more than 583,625,524 Rights Shares (assuming Shares have been allotted and issued before the Record Date pursuant to the full exercise of the outstanding Share Options (other than the Director Share Options) but otherwise no Shares have been allotted and issued on or before the Record Date)
"Whitewash Waiver"	a waiver to be granted by the Executive pursuant to Note 1 of the Notes on the dispensations from Rule 26 of the Takeovers Code in respect of the obligation of the Underwriter and parties acting in concert with it to make a mandatory general offer for all securities of the Company not already owned by the Concert Group which would otherwise arise as a result of the Underwriter subscribing for the Underwritten Shares
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
%	percentage

In this circular, amounts denominated in RMB have been converted into HK$ at the rate of RMB0.81085 = HK$1 for the purpose of illustration.

Set out below is an indicative timetable for the implementation of the Rights Issue. The expected timetable may be subject to changes and the Company will notify the Shareholders on any changes to the expected timetable as and when appropriate.

	2013
Latest time for lodging transfer of the Shares in order to be qualified for the attendance of the EGM	4:30 p.m. on Thursday, 14 February
Register of members closes to determine the right to attend the EGM (both dates inclusive)	Friday, 15 February to Tuesday, 19 February
Latest time for return of form of proxy for the EGM	10:30 a.m. on Sunday, 17 February
EGM	10:30 a.m. on Tuesday, 19 February
Announcement of the results of the EGM	Tuesday, 19 February
Last day of dealings in the Shares on a cum-rights basis	Wednesday, 20 February
Commencement of dealings in the Shares on an ex-rights basis	Thursday, 21 February
Latest time for lodging transfer of the Shares in order to be qualified for the Rights Issue	4:30 p.m. on Friday, 22 February
Register of members closes to determine entitlements under the Rights Issue (both dates inclusive)	Monday, 25 February to Wednesday, 27 February
Record Date	Wednesday, 27 February
Register of members re-opens	Thursday, 28 February
Despatch of the Prospectus Documents	Thursday, 28 February
First day of dealing in nil-paid Rights Shares	Monday, 4 March
Latest time for splitting nil-paid Rights Shares	4:30 p.m. on Wednesday, 6 March
Last day of dealings in nil-paid Rights Shares	Monday, 11 March
Latest Time for Acceptance of and Payment for Rights Shares (Note (ii))	4:00 p.m. on Thursday, 14 March
Latest Time for Termination	4:00 p.m. on Monday, 18 March

Announcement of results of the Rights Issue	Thursday, 21 March
Desptach of refund cheques for wholly and partially unsuccessful applications for excess Rights Shares	Friday, 22 March
Despatch of certificates for the fully paid Rights Shares	Friday, 22 March
Dealings in fully-paid Rights Shares expected to commence	9:00 a.m. on Monday, 25 March

Notes:

(i) All times in this circular refer to Hong Kong time.

(ii) Effect of bad weather on the Latest Time for Acceptance of and Payment for Rights Shares

If there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning:

(a) in force in Hong Kong at any local time before 12:00 noon and no longer in force after 12:00 noon on the Latest Acceptance Date. Instead the Latest Time for Acceptance of and Payment for Rights Shares will be extended to 5:00 p.m. on the same Business Day;

(b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on the Latest Acceptance Date. Instead the Latest Time for Acceptance of and Payment for Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance of and Payment for Rights Shares does not take place on the Latest Acceptance Date, the dates mentioned in the section headed "Expected timetable" in this circular may be affected. The Company will notify the Shareholders by way of announcement on any changes to the expected timetable as soon as practicable.

TERMINATION OF UNDERWRITING AGREEMENT

Ever Novel may terminate the Underwriting Agreement by notice in writing to the Company prior to the Latest Time for Termination if:

(i) in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

(a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date thereof the Underwriting Agreement), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(c) any materially adverse change in the business or in the financial or trading position of the Group as a whole; or

(d) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(ii) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this paragraph includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs in Hong Kong, the United States or the PRC which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue.

If Ever Novel exercises such rights, the Rights Issue will not proceed.

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)

Executive Directors:
Mr. Liu Xiaosong *(Chairman)*
Mr. Lu Bin

Independent non-executive Directors:
Mr. Chan Yiu Kwong
Mr. Zeng Liqing
Ms. Wu Shihong

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Head Office:
5/F, Fucheng Hi-Tech Building
South-1 Avenue
Southern District of Hi-Tech Park
Nanshan District, Shenzhen 518057
Guangdong Province
The People's Republic of China

Principal place of business in Hong Kong:
Suites 06-12
33/F, Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

30 January 2013

To the Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY EXISTING SHARE HELD ON THE RECORD DATE; AND APPLICATION FOR THE WHITEWASH WAIVER

INTRODUCTION

Reference is made to the Announcements in relation to, among other things, the Rights Issue and the Whitewash Waiver.

On 6 January 2013, 10 January 2013 and 25 January 2013, the Board announced that the Company proposed to raise not less than approximately HK$342.92 million (before expenses) to not more than HK$347.62 million (before expenses) by issuing not less than 952,564,752 Rights Shares and not more than 965,597,432 Rights Shares at the Subscription Price of HK$0.36 per Rights Share on the basis of two Rights Shares for every existing Share held on the Record Date. The number of Rights Shares which may be issued pursuant to the Rights Issue will be increased in proportion to any additional new Shares which may be allotted and issued to the holders of the Share Options pursuant to the Share Option Scheme on or before the Record Date (assuming there is no other Shares allotted and issued on or before the Record Date). Each of the executive Directors has undertaken to the Company not to exercise their outstanding Share Options from the date of the Director Undertakings up to and until the date on which trading of the Rights Shares (in their fully paid form) commences on the Stock Exchange. The Rights Issue will be fully underwritten by the Underwriter, namely Ever Novel, on the terms and subject to the conditions set out in the Underwriting Agreement. The Underwriting Agreement contains provisions granting the Underwriter the ability to terminate its obligations thereunder on the occurrence of certain events as set out under the section headed "Termination of the Underwriting Agreement" in this circular at any time prior to the Latest Time for Termination. The Rights Issue is not available to the Excluded Shareholders.

Pursuant to Rule 8.2 of the Takeovers Code, the Company should send this circular containing further details of, among others, the Rights Issue and the Whitewash Waiver and arrange for its publication within 21 days after the date of the First Announcement, being no later than 27 January 2013. As additional time is required to finalise certain information in this circular and to bulk print this circular, this circular cannot be despatched by 27 January 2013. In view of the above, the Company has pursuant to Rule 8.2 of the Takeovers Code applied to the Executive for its consent to extend the date of despatch of this circular to on or before 30 January 2013. Due to the delay in despatch of this circular, the timetable regarding the Rights Issue as original announced in the First Announcement has been changed. Shareholders should refer to the revised timetable regarding the Rights Issue as contained in the Company's announcement dated 25 January 2013 and in this circular.

The purpose of this circular is to provide you with, among other things, (i) details of the proposed Rights Issue and the Whitewash Waiver, (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders, (iii) a letter of advice from Guangdong Securities to the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and Whitewash Waiver, and (iv) the notice convening the EGM.

RIGHTS ISSUE

Issue statistics

Basis of Rights Issue:	Two Rights Shares for every existing Share held on the Record Date
Number of existing Shares in issue:	476,282,376 Shares as at the Latest Practicable Date

Number of new Shares to be issued upon exercise of the outstanding Share Options in full (other than those Director Share Options) *(Note 1)*:	6,516,340 Shares
Number of Rights Shares:	Not less than 952,564,752 *(Note 2)* Rights Shares but not more than 965,597,432 *(Note 2)* Rights Shares
Enlarged issued share capital upon completion of the Rights Issue:	Not less than 1,428,847,128 Shares but not more than 1,448,396,148 Shares
Subscription Price:	HK$0.36 per Rights Share
Underwriter:	Ever Novel

Notes:

1. As at the Latest Practicable Date, the Company had outstanding Share Options entitling the holders thereof to subscribe for an aggregate of 9,311,781 Shares, among which the Share Options entitling the holders thereof to subscribe for an aggregate of 2,795,441 Shares were Director Share Options. Pursuant to the Director Undertakings, each of Mr. Liu and Mr. Lu Bin, both being executive Directors, has undertaken to the Company not to exercise his respective Director Share Options from the date of the Director Undertakings until the date on which trading of the Rights Shares (in their fully paid form) commences on the Stock Exchange.

2. The figure of 952,564,752 is calculated on the assumption that no outstanding Share Options will be exercised and no other Shares are allotted and issued on or before the Record Date, and the figure of 965,597,432 is calculated on the assumption that all outstanding Share Options (other than the Director Share Options) will be exercised in full but no other Shares are allotted and issued on or before the Record Date.

The minimum number of 952,564,752 Rights Shares to be allotted and issued pursuant to the terms of the Rights Issue represents 200.00% of the existing issued share capital of the Company and 66.67% of the enlarged issued share capital of the Company immediately upon completion of the Rights Issue.

The maximum number of 965,597,432 Rights Shares to be allotted and issued pursuant to the terms of the Rights Issue represents approximately 202.74% of the existing issued share capital of the Company and 66.67% of the enlarged issued share capital of the Company immediately upon completion of the Rights Issue.

The number of Rights Shares which may be allotted and issued pursuant to the Rights Issue will be increased in proportion to any outstanding Share Options (other than the Director Share Options) that might be exercised and any other Shares that might be allotted and issued on or before the Record Date.

As at the Latest Practicable Date, there were outstanding Share Options (other than the Director Share Options) entitling the holders thereof to subscribe for an aggregate of 6,516,340 Shares. If all Share Options (other than the Director Share Options) are exercised in full and Shares are allotted and issued pursuant to such exercise on or before the Record Date, the number of issued Shares is expected to be increased to 482,798,716 and the number of Rights Shares that may be issued pursuant to the Rights Issue is expected to be increased to 965,597,432.

Save as disclosed above, the Company did not have any pre-existing obligation to issue any Shares or any derivatives or securities which are convertible or exchangeable into Shares as at the Latest Practicable Date.

Qualifying Shareholders

To qualify for the Rights Issue, a Shareholder must be registered as a member of the Company at the close of business on the Record Date and must not be an Excluded Shareholder. Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company.

In order to be registered as members of the Company on the Record Date, all transfers of the Shares (together with the relevant share certificate(s) and/or instrument(s) of transfer) must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m. (Hong Kong time) on Friday, 22 February 2013.

The Company will send the Prospectus Documents, including the Prospectus, the provisional allotment letter(s) and the form(s) of application for excess Rights Shares to the Qualifying Shareholders. The Company will send the Prospectus only to the Excluded Shareholders (if any) for information purpose.

Rights of Overseas Shareholders

If there are any Overseas Shareholders at the close of business on the Record Date, such Overseas Shareholders may not be eligible to take part in the Rights Issue. According to the register of members of the Company, as at the Latest Practicable Date, there was no Overseas Shareholder.

In determining who will be the Excluded Shareholders on the Record Date, the Company will comply with Rule 13.36(2)(a) of the Listing Rules and make enquiries regarding the feasibility of extending the offer of the Rights Shares to the Overseas Shareholders (if any). If, based on legal opinions provided by the legal adviser to the Company, the Directors consider that it is necessary or expedient not to offer the Rights Shares to the Overseas Shareholder(s) on account either of the legal restrictions under the laws of the place of his registered address or the requirements of the relevant regulatory body or stock exchange in that place, the Rights Issue will not be available to such Overseas Shareholders and further information in this connection will be set out in the Prospectus. Where applicable, summary on the legal opinion regarding the rights of the Overseas Shareholder(s) will be disclosed in the Prospectus. The Excluded Shareholders, so long as they are Independent Shareholders, will be entitled to attend and vote at the EGM to consider and, if thought fit, pass the proposed resolution(s) in relation to the Rights Issue and the Whitewash Waiver.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence and in any event before the last day for dealing in the nil-paid Rights Shares, if a premium (net of expenses) can be obtained. The net proceeds of such sale, less expenses, will be paid pro rata to the Excluded Shareholders in Hong Kong dollars as soon as practicable except that the Company will retain individual amounts of HK$100 or less for its own benefit. Any unsold entitlements of the Excluded Shareholders will be made available for excess application by the Qualifying Shareholders.

Closure of register of members

The register of members of the Company will be closed from Friday, 15 February 2013 to Tuesday, 19 February 2013, both dates inclusive for determining the right to attend the EGM.

The register of members of the Company will be closed from Monday, 25 February 2013 to Wednesday, 27 February 2013, both dates inclusive for determining entitlements under the Rights Issue.

No transfer of Shares will be registered during these periods.

TERMS OF THE RIGHTS ISSUE

Subscription Price

HK$0.36 per Rights Share will be payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(i) a discount of 52% to the closing price of HK$0.75 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 50.55% to the average closing price of approximately HK$0.728 per Share for the five consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 50.28% to the average closing price of approximately HK$0.724 per Share for the ten consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 26.53% to the theoretical ex-rights price of approximately HK$0.49 per Share based on the closing price of HK$0.75 per Share as quoted on the Stock Exchange on the Last Trading Day;

(v) a discount of approximately 43.75% to the closing price of HK$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(vi) a discount of approximately 74.10% to the unaudited consolidated net asset value per Share of approximately HK$1.39 (based on the latest published unaudited consolidated net asset value of the Group attributable to the Shareholders of approximately RMB535,679,000 (equivalent to approximately HK$660,638,836) as at 30 June 2012 and 476,282,376 Shares in issue as at the Latest Practicable Date); and

(vii) a discount of approximately 72.31% to the unaudited consolidated net tangible asset value per Share of approximately HK$1.30 (based on the latest published unaudited consolidated net tangible asset value of the Group attributable to the Shareholders of approximately RMB503,623,000 (equivalent to approximately HK$621,105,013) as at 30 June 2012 and 476,282,376 Shares in issue as at the Latest Practicable Date).

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the market price of the Shares under the prevailing market conditions. As the Rights Shares are offered to all Qualifying Shareholders, the Directors would like to set the Subscription Price at a level that would attract the Qualifying Shareholders to participate in the Rights Issue. The Directors (excluding independent non-executive Directors whose view on the Rights Issue as a whole is set out in the "Letter from the Independent Board Committee" contained in this circular) consider the terms of the Rights Issue, including the Subscription Price, are fair and reasonable so far as the Company and the Shareholders as a whole are concerned. The net price per Rights Share, after deducting all the expenses incurred and to be incurred thereof, upon full acceptance of the relevant provisional allotment of Rights Shares will be approximately HK$0.35.

Basis of provisional allotments

Two Rights Shares (in nil-paid form) for every existing Share held by Qualifying Shareholders at the close of business on the Record Date.

Status of the Rights Shares

When allotted, issued and fully paid, the Rights Shares will rank pari passu in all respects with the then existing Shares in issue. Holders of fully paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after the date of allotment and issue of the fully-paid Rights Shares.

Certificates for the Rights Shares and refund cheques

Subject to the fulfillment of the conditions of the Rights Issue, certificates for all fully-paid Rights Shares are expected to be posted on or before Friday, 22 March 2013 by ordinary post to those entitled thereto at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares (if any) are also expected to be posted on or about Friday, 22 March 2013 by ordinary post at the own risk of the Shareholders.

Application for excess Rights Shares

Qualifying Shareholders shall be entitled to apply for, (i) Rights Shares representing the entitlement of the Excluded Shareholders and which cannot be sold at a net premium; and (ii) any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders. Application may be made by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Board will allocate the excess Rights Shares at its discretion, but on a fair and equitable basis as far as practicable, and on the following principles:

(1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse the mechanism; and

(2) subject to availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to the Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied by them (i.e. Qualifying Shareholders applying for smaller number of Rights Shares will be allocated a higher percentage of the excess Rights Shares they have applied for whereas Qualifying Shareholders applying for larger number of Rights Shares will be allocated a lower percentage of the excess Rights Shares they have applied for (although they will still receive a greater number of Rights Shares than those applying for a smaller number) with board lot allocations to be made on a best effort basis. No reference will be made to Rights Shares comprised in applications by provisional allotment letter or the existing number of Shares held by Qualifying Shareholders.

Members of the Concert Group who held Shares as at the Latest Practicable Date have undertaken that they will not acquire any Shares (other than Rights Shares that will be provisionally allotted to them) until the Latest Time for Acceptable of and Payment for Rights Shares. As such, none of them will apply for any excess Rights Shares.

Shareholders with their Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date. Shareholders and investors should consult their professional advisers if they are in any doubt as to their status.

Shareholders whose Shares are held by their nominee(s) and who would like to have their names registered on the register of members of the Company prior to the Record Date must lodge all necessary documents with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for completion of the relevant registration by 4:30 p.m. on Friday, 22 February 2013.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. The nil-paid and fully-paid Rights Shares are expected to have the same board lot size as Shares (i.e. 2,000 Shares in one board lot).

Dealings in the Rights Shares (in both nil-paid and fully-paid forms) on the branch register of members of the Company will be subject to the payment of stamp duty and other applicable fees and charges in Hong Kong. No part of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchange.

Rights will be eligible for admission into CCASS

Subject to the grant of listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Shareholders should seek advice from their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into the CCASS.

Conditions of the Rights Issue

The Rights Issue is conditional upon:

(a) the passing by the Independent Shareholders at the EGM of an ordinary resolution to approve the Rights Issue (including, but not limited to, the exclusion of the offer of the Rights Issue to the Excluded Shareholder) by no later than the Prospectus Posting Date;

(b) the Executive granting the Whitewash Waiver to the Underwriter and the satisfaction of any conditions attached to the Whitewash Waiver granted;

(c) the passing by the Independent Shareholders at the EGM by way of poll of an ordinary resolution to approve the Whitewash Waiver by no later than the Prospectus Posting Date;

(d) the Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in all the Rights Shares (in their nil-paid and fully-paid forms) by no later than the Prospectus Posting Date;

(e) the filing and registration of all relevant documents with the Registrar of Companies in Hong Kong by no later than the Prospectus Posting Date;

(f) the posting of the Prospectus Documents to Qualifying Shareholders on the Prospectus Posting Date;

(g) the Underwriting Agreement not being terminated by the Underwriter pursuant to the terms thereof on or before the Latest Time of Termination;

(h) the delivery of the duly signed Liu Undertaking and the Lu Undertaking to the Company; and

(i) compliance with and performance of all the undertakings and obligations of signatory of each of the Liu Undertaking and the Lu Undertaking.

If the above conditions are not satisfied by the Latest Time for Acceptance of and Payment for Rights Shares, or such later time and/or date as the Underwriter may agree with the Company in writing, the Underwriting Agreement shall terminate (save in respect of the provisions in relation to indemnity, notices and governing law) and no party will have any claim against any other party for costs, damages, compensation or otherwise, and the Rights Issue will not proceed.

INFORMATION OF THE GROUP

The Group is principally engaged in providing music and culture related service, mainly including providing the mobile value-added services ("**MVAS**") focusing on music to mobile phones users in the PRC and offering personalized music service to mobile internet users in the PRC.

As disclosed in the Profit Warning, the Group is expected to record a loss for the year ended 31 December 2012 which represents a significant decline as compared to the consolidated profit for the year ended 31 December 2011. As disclosed in the Profit Warning and the announcement of the Company dated 25 January 2013, the anticipated loss was due to:

(i) The continuing negative impact brought by the series of measures implemented to the MVAS industry by related industry management divisions and mobile operators in the PRC since 2010. As a result, the Group has recorded a decrease in revenue as at the Latest Practicable Date.

(ii) Restructure of the current business and deployment of new business in the Company which are still in process as at the Latest Practicable Date.

(iii) The effect of sharing of losses of associates of the Company (namely Duomi Music Holding Ltd ("**Duomi Music**") and Shenzhen Ningmenghai Technology Limited).

The anticipated loss in its consolidated accounts of the Group for the financial year ended 31 December 2012 as disclosed in the Profit Warning and referred to above constitutes a loss estimate under Rule 10 of the Takeovers Code and therefore has been reported on by Ernst & Young, the auditors of the Company, and Guangdong Securities, the Independent Financial Adviser in accordance with Rule 10 of the Takeovers Code. Please refer to Appendix III to this circular for the letters from Ernst & Young and Guangdong Securities, respectively.

The Company is still in the process of finalising the results of the Group for the financial year ended 31 December 2012. The information above is only preliminary assessment by the Directors based on the information available to them. Further details of the results of the Group will be disclosed in the results announcement which is expected to be published by the end of March 2013 and annual report of the Company for the financial year ended 31 December 2012.

TREND OF BUSINESS OF THE GROUP

In general, the business of the Group is at its transition period now. Currently, the traditional MVAS business is in its downturn trend. Regarding the mobile internet business, the Group and its associates, Duomi Music, has achieved an expected progress by deploying music cloud in the home entertainment system and has accumulated a certain user scale, of which Duomi Music, has more than 80 million users, yet the profit model is still at the testing stage. Nevertheless, the Directors believe that the Group's business will grow in the coming future forseeing that purchasing licensed music online will be the trend.

UNDERWRITING ARRANGEMENT

The Rights Share will be fully underwritten by Ever Novel in accordance with the terms of the Underwriting Agreement as described below.

Underwriting Agreement

Date:	4 January 2013 (the original Underwriting Agreement) 10 January 2013 (the First Supplemental Underwriting Agreement) 25 January 2013 (the Second Supplemental Underwriting Agreement)
Underwriter:	Ever Novel, a company incorporated in the BVI with limited liability and is 100% beneficially owned by a family trust, the beneficiaries of which are the family members of Mr. Liu. Mr. Liu is the Chairman of the Company and an executive Director and holds 1,922,000 Shares as at the Latest Practicable Date, representing 0.40% of the existing issued share capital of the Company. As at the Latest Practicable Date, Ever Novel, together with Prime Century held in aggregate 167,463,954 Shares, representing 35.16% of the issued share capital of the Company. The principal business is investment holding. The Underwriter does not underwrite issues of securities in its ordinary course of business.
Number of outstanding Share Options:	6,516,340 Share Options (other than Director Share Options) entitling the holders thereof to subscribe for 6,516,340 Shares under the Share Option Scheme. Each of the executive Directors has undertaken to the Company not to exercise his respective Director Share Options from the date of the Director Undertakings until the date on which trading of the Rights Shares (in their fully paid form) commences on the Stock Exchange.
Number of Underwritten Shares (being the difference between the total number of Rights Shares and the Committed Shares):	Not less than 570,592,844 Rights Shares (assuming no Shares have been allotted and issued before the Record Date pursuant to any exercise of the outstanding Share Options and that no Shares have been allotted and issued on or before the Record Date) and not more than 583,625,524 Rights Shares (assuming Shares have been allotted and issued on or before the Record Date pursuant to the full exercise of the outstanding Share Options (other than the Director Share Options) but otherwise no Shares have been allotted and issued on or before the Record Date).
Commission:	Ever Novel will receive a commission in respect of its underwriting of the Rights Issue at 2% of the total subscription price of the Underwritten Shares.

The Board (excluding Mr. Liu who is a member of the Concert Group and the independent non-executive Directors whose view on the Rights Issue as a whole is set out in the "Letter from the Independent Board Committee" contained in this circular) is of the opinion that the amount of commission given to the Underwriter are fair as compared to the market practice and commercially reasonable as agreed between the parties of the Underwriting Agreement.

Termination of the Underwriting Agreement

The Underwriter may terminate the Underwriting Agreement by notice in writing to the Company prior to the Latest Time for Termination if:

(i) in the reasonable opinion of the Underwriter, the success of the Rights Issue would be materially and adversely affected by:

(a) the introduction of any new regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Rights Issue; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement), of a political, military, financial, economic or other nature, or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(c) any materially adverse change in the business or in the financial or trading position of the Group as a whole; or

(d) there occurs or comes into effect the imposition of any moratorium, suspension or material restriction on trading in the Shares generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or

(ii) any material adverse change in market conditions (including, without limitation, a change in fiscal or monetary policy or foreign exchange or currency markets, suspension or restriction of trading in securities, and a change in currency conditions for the purpose of this paragraph includes a change in the system under which the value of the Hong Kong currency is pegged with that of the currency of the United States of America) occurs in Hong Kong, the United States or the PRC which in the reasonable opinion of the Underwriter makes it inexpedient or inadvisable to proceed with the Rights Issue.

If the Underwriter exercises such rights, the Rights Issue will not proceed.

Undertaking by the Underwriter

The Underwriter irrevocably undertakes to the Company to (i) accept the 90,184,098 Rights Shares to be provisionally allotted to it, and that all Shares beneficially owned by it as at the date of the Underwriting Agreement will remain beneficially owned by it as on the Record Date; and (ii) procure Prime Century to accept the 244,743,810 Rights Shares to be provisionally allotted to it, and that all Shares beneficially owned by Prime Century as at the date of the Underwriting Agreement will remain beneficially owned by it as on the Record Date.

INFORMATION OF THE UNDERWRITER

None of the Underwriter, its directors and parties acting in concert with it had any dealings in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period.

As at the Latest Practicable Date:

(i) the Underwriter or any persons acting in concert with it had not received any irrevocable commitment to vote for or against the proposed resolution approving the Rights Issue and/or the Whitewash Waiver at the EGM;

(ii) save for the Share Options granted to Mr. Liu to subscribe for 455,441 new Shares and the Share Options granted to Mr. Lu Bin to subscribe for 2,340,000 new Shares, none of the Underwriter and persons acting in concert with it held any convertible securities, warrants or options;

(iii) the Underwriter or any persons acting in concert with it had not entered into any outstanding derivatives in respect of the securities of the Company;

(iv) save for the transactions contemplated under the Underwriting Agreement, there was no arrangement (whether by way of option, indemnity or otherwise) under Note 8 to Rule 22 of the Takeovers Code in relation to the Shares entered into by the Underwriter or any persons acting in concert with it and which might be material to the Rights Issue and/or the Whitewash Waiver;

(v) save for the Underwriting Agreement, there was no arrangement or agreement to which the Underwriter or any persons acting in concert with it is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Rights Issue (other than those listed under the section headed "Conditions of the Rights Issue") in this letter and the Whitewash Waiver; and

(vi) there was no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company which the Underwriter or any persons acting in concert with it has borrowed or lent.

Liu Undertaking and Lu Undertaking

Pursuant to the Director Undertakings, each of Mr. Liu and Mr. Lu Bin, both being executive Directors, has undertaken to the Company not to exercise his respective Director Share Options from the date of the Director Undertakings until the date on which trading of the Rights Shares (in their fully paid form) commences on the Stock Exchange.

As at the Latest Practicable Date, Mr. Liu held 1,922,000 Shares, representing 0.40% of the existing issued share capital of the Company while Mr. Lu Bin did not have any Shares. Mr. Liu has also undertaken to accept and pay for all 3,844,000 Rights Shares to be provisionally allotted to him on the Record Date.

SHAREHOLDING STRUCTURE

For illustration purposes only, the table below depicts the possible shareholding structure of the Company as at the Latest Practicable Date and the possible changes upon completion of the Rights Issue:

			Immediately upon completion of the Rights Issue							
			Assuming no exercise of the outstanding Share Options on or before the Record Date				Assuming full exercise of the outstanding Share Options (other than the Director Share Options) on or before the Record Date			
Shareholder	**As at the Latest Practicable Date**		**Full acceptance by the Qualifying Shareholders under the Rights Issue**		**No acceptance by the Qualifying Shareholders under the Rights Issue (other than the Concert Group)** *(Note 1)*		**Full acceptance by the Qualifying Shareholders under the Rights Issue**		**No acceptance by the Qualifying Shareholders under the Rights Issue (other than the Concert Group)** *(Note 1)*	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
The Underwriter (i.e. Ever Novel) and persons acting in concert with it *(Note 2)*	190,985,954	40.10	572,957,862	40.10	1,143,550,706	80.03	572,957,862	39.56	1,156,583,386	79.85
Public	285,296,422	59.90	855,889,266	59.90	285,296,422	19.97	875,438,286	60.44	291,812,762	20.15
Total	476,282,376	100.0	1,428,847,128	100.0	1,428,847,128	100.0	1,448,396,148	100.0	1,448,396,148	100.0

Notes:

1. **These scenarios are for illustration only** and assuming the provisional allotments of the Rights Shares of all other Shareholders are taken up by the Underwriter. As at the Latest Practicable Date, the Concert Group held, in aggregate, 190,985,954 Shares. Pursuant to the Underwriting Agreement, Grand Idea Undertaking and the Liu Undertaking, the Concert Group have undertaken to take up, in aggregate, 381,971,908 Rights Shares provisionally allotted to them respectively. The Company will ensure its compliance with Rule 8.08 of the Listing Rules to maintain a public float of 25% of the Company's total issued share capital on the date of completion of the Rights Issue.

2. The Underwriter is 100% beneficially owned by a family trust, the beneficiaries of which are the family members of Mr. Liu. As at the Latest Practicable Date, (i) the Underwriter, together with Prime Century, held in aggregate 167,463,954 Shares, representing 35.16% of the existing issued share capital of the Company; (ii) Mr. Liu, being a member of the Concert Group, directly held 1,922,000 Shares, representing 0.40% of the existing issued share capital of the Company; and (iii) Grand Idea, being a member of the Concert Group, directly held 21,600,000 Shares, representing

4.54% of the existing issued share capital of the Company. The issued share capital of Grand Idea is 100% beneficially owned by a family trust set up by Ms. Xie Yuanbi for the benefits of her family members. Ms. Xie Yuanbi is the mother of Mr. Liu.

Pursuant to the Underwriting Agreement, the Underwriter has undertaken that in the event that the public float of the Company shall fall below the prescribed percentage applicable to the Company under the Listing Rules at the time of the allotment of the fully paid Rights Shares, the Underwriter will, immediately after the completion of the Rights Issue, dispose of such number of Shares to independent third parties not connected or associated with the Directors, substantial Shareholders or chief executive of the Company and its subsidiaries, or any of their respective associates in order to restore the public float of the Company to not less than the prescribed percentage applicable to the Company under the Listing Rules ("**Public Float Maintenance Arrangement**"). As at the Latest Practicable Date, the Underwriter was in the course of negotiation with certain potential independent purchasers in respect of the Public Float Maintenance Arrangement and will enter into definitive agreement(s) with potential purchaser(s) before the latest practicable date of the Prospectus.

APPLICATION FOR WHITEWASH WAIVER

As at the Latest Practicable Date, (i) the Underwriter, together with Prime Century, held in aggregate 167,463,954 Shares, representing 35.16% of the existing issued share capital of the Company; (ii) Mr. Liu directly held 1,922,000 Shares, representing 0.40% of the existing issued share capital of the Company and (iii) Grand Idea, being a member of the Concert Group, directly held 21,600,000 Shares, representing 4.54% of the existing issued share capital of the Company. In the event that the Underwriter is called upon to subscribe for the Underwritten Shares in full pursuant to its obligations under the Underwriting Agreement, the interest of the Concert Group in the voting rights of the Company would increase from approximately 40.10% to approximately 80.03% immediately upon completion of the Rights Issue (assuming that no outstanding Share Options are exercised and no other Shares are allotted and issued on or before the Record Date) or from approximately 39.56% to approximately 79.85% immediately upon completion of the Rights Issue (assuming that all outstanding Share Options (other than the Director Share Options) are exercised in full but no other Shares are allotted and issued on or before the Record Date). Accordingly, the underwriting by the Underwriter of the Rights Issue will trigger an obligation for the Concert Group to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by the Concert Group.

The Underwriter has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that the Whitewash Waiver will be granted subject to, among other things, the approval of the Independent Shareholders taken by poll at the EGM. (i) The Underwriter and persons acting in concert with it; (ii) the controlling Shareholders (i.e. the Underwriter, Prime Century, Mr. Liu and Grand Idea) and their respective associates; (iii) and those who are involved in, or interested in, the Underwriting Agreement and/or the Whitewash Waiver are required by the Takeovers Code to abstain from voting on the proposed resolution approving the Whitewash Waiver. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for the

Underwriter and persons acting in concert with it, no Shareholders have interest in the Underwriting Agreement and/or the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolution at the EGM. The Executive has agreed, subject to approval by Independent Shareholders, to waive any obligations to make a general offer which might result from the Underwriting Agreement. If the Whitewash Waiver is not granted by the Executive or if granted, is not approved by the Independent Shareholders, the Rights Issue will not proceed.

Upon completion of the Rights Issue, the Underwriter and parties acting in concert with it may hold more than 50% of the enlarged issued share capital of the Company, in which case, the Underwriter and parties acting in concert with it may acquire further voting rights in the Company without incurring any further obligation under Rules 26 of the Takeovers Code to make a general offer.

WARNING OF THE RISKS OF DEALING IN THE SHARES AND THE NIL-PAID RIGHTS SHARES

Existing Shares will be dealt with on an ex-rights basis from Thursday, 21 February 2013. The Rights Shares will be dealt with in their nil-paid form from Monday, 4 March 2013 to Monday, 11 March 2013 (both dates inclusive). If prior to 4:00 p.m., Monday, 18 March 2013 (or such later time and/or date as the Underwriter may agree with the Company), the Underwriter terminates the Underwriting Agreement (see the sub-section headed "Termination of the Underwriting Agreement" above) or the conditions of the Rights Issue (see the sub-section headed "Conditions of the Rights Issue" above) cannot be fulfilled, the Rights Issue will not proceed.

Any dealings in the Shares from the date of the First Announcement up to the date on which all the conditions to which the Rights Issue is subject are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Monday, 4 March 2013 to Monday, 11 March 2013, both days inclusive, are accordingly subject to the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or the Rights Shares in their nil-paid form are recommended to consult with their own professional advisers if they are in any doubt.

A8 BUILDING

A8 building will serve as the Group's headquarter, theater, audio labs, studios and demo rooms, in which additional space will be used for rental purpose. A8 building, as the operator of the "Guangdong National Music Industrial Base – Digital Music Industry Park", will also serve as a hub for the creation, collection, production, distribution, performance, exhibition, trading as well as research and development of digital music.

The construction of A8 building assists in promoting the brand name of the Company as well as original produced music content. Through the integration of resources, it is expected to help nurture music talents and the Group is aspired to become Shenzhen's new cultural communication and consumption center. The Group estimates that after the completion of construction of the A8 building, the Group will be able to make a rental saving as well as secure rental income for leasing part of the A8 building out.

The major areas of construction had already been completed while the interior renovation and other accessories are expected to be completed around mid 2013. The total construction cost for the A8 building is expected to be approximately HK$330.25 million, in which approximately HK$120 million had been used and HK$84 million will be used on the construction of the building, approximately HK$91.25 million will be used on the interior renovation and the exterior glass walls, approximately HK$22.5 million will be used on the studios, demo rooms and theatre, approximately HK$12.5 million will be used on the air conditioning and electricity.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Directors believe that the Rights Issue is in the best interest of the Group and the Shareholders as a whole and it would enable the Group to enlarge the capital base and strengthen the financial position of the Group. The Rights Issue would also enable the Qualifying Shareholders to maintain their respective pro rata shareholding interest in the Group and participate in the future growth of the Group by participating in the Rights Issue.

The estimated gross proceeds from the Rights Shares will be not less than approximately HK$342.92 million before expenses and not more than approximately HK$347.62 million before expenses.

The estimated expenses in relation to the Rights Issue, including underwriting commission, financial, legal and other professional expenses, of approximately HK$5.51 million to HK$5.60 million, will be borne by the Company.

The estimated net proceeds of the Rights Issue will be approximately HK$337.42 million after the deduction of all estimated expenses (assuming no Shares have been allotted and issued before the Record Date pursuant to any exercise of the Share Options and that no Shares have been allotted and issued on or before the Record Date), or approximately HK$342.01 million (assuming Shares have been allotted and issued before the Record Date pursuant to full exercise of the Share Options (other than the Director Share Options) but otherwise no Shares have been allotted and issued on or before the Record Date).

As set out in the interim report of the Company for the six months ended 30 June 2012, the Group had interest-bearing borrowings amounted to approximately RMB39.7 million (equivalent to approximately HK$48.96 million). As at 30 November 2012, the Group had an outstanding bank loan of approximately RMB70 million (equivalent to approximately HK$86.33 million). The said borrowings were used for the construction of A8 building of the Group, which is expected to complete in the first half of 2013. Pursuant to the terms of the existing banking facility, the Group is required to start to repay such bank loans, subject to the amount drawn, from June 2014 and the Group is required to repay RMB4 million (equivalent to approximately HK$4.93 million) per month from June 2014 to May 2015, RMB6 million (equivalent to approximately HK$7.4 million) per month from June 2015 to May 2016 and RMB6.25 million (equivalent to approximately HK$7.71

million) per month thereafter until full repayment. Depending on the construction progress of the A8 Building and assuming the RMB195 million (equivalent to approximately HK$240.49 million) bank facility is fully drawn, the annual interest payable will be approximately RMB13.75 million (equivalent to approximately HK$16.96 million) (assuming the outstanding amount is RMB195 million (equivalent to approximately HK$240.49 million) for a full year). To avoid incurring further interest expenses, the Directors currently intend to apply the net proceeds from the Rights Issue of approximately HK$85.8 million on the settlement of the Group's loan payables to certain banks, which are independent third parties of the Company. The Directors also intend to apply approximately HK$210 million on the continuing investments in the construction of A8 building and the remaining balance of approximately HK$41.62 million as general working capital to facilitate the Group's development and business.

FUND RAISING EXERCISE OF THE COMPANY IN THE PAST 12 MONTHS

The Company has not effected any equity fund raising exercises in the 12 months immediately preceding the Latest Practicable Date.

SHARE OPTION SCHEME

As at the Latest Practicable Date, the Company had outstanding Share Options entitling the holders thereof to subscribe for an aggregate of 9,311,781 Shares, among which the Share Options entitling the holders thereof to subscribe for an aggregate of 2,795,441 Shares were Director Share Options. Pursuant to the Director Undertakings, each of the executive Directors has undertaken to the Company not to exercise their outstanding Share Options from the date of the Director Undertakings until the date on which trading of the Rights Shares (in their fully paid form) commences on the Stock Exchange. As a result, there are outstanding Share Options entitling the holders thereof to subscribe for an aggregate of 6,516,340 Shares after taking into account the Director Undertakings.

Pursuant to the terms of the Share Option Scheme, adjustment to the outstanding share options may be made in the event of any alteration in the capital structure of the Company including by way of a rights issue. Further announcement on the details of such adjustment (if any) will be made as and when necessary.

INTENTION OF EVER NOVEL

It is the intention of Ever Novel that the Group will continue its current business. Ever Novel has no intention to make any major changes to the business or employment of the employees of the Group or redeploy the fixed assets of the Group.

The decision to support the Rights Issue by way of acting as the underwriter to the Rights Issue was mainly because Ever Novel believed that the Rights Issue would strengthen the Group's financial position and enlarge its capital base.

GENERAL

Pursuant to Rule 7.19(6) of the Listing Rules, the Rights Issue is subject to the approval by the Shareholders at the EGM at which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour. Therefore, the Concert Group and the respective associates of its members shall abstain from voting in favour of the resolution in relation to the Rights Issue at the EGM.

The Whitewash Waiver is subject to the approval by the Independent Shareholders at the EGM in accordance with the requirements of the Takeovers Code. (i) The Underwriter and persons acting in concert with it; (ii) the controlling Shareholders (i.e. the Underwriter, Prime Century, Mr. Liu and Grand Idea) and their respective associates; and (iii) those who are involved in, or interested in, the Underwriting Agreement and/or the Whitewash Waiver are required by the Takeovers Code to abstain from voting on the proposed resolution approving the Whitewash Waiver. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for the Underwriter and persons acting in concert with it, no Shareholders have interest in the Underwriting Agreement and/or the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolution at the EGM.

As at the Latest Practicable Date, no Shareholders that were required to abstain from voting in favour at the EGM had stated their intention to vote against the proposed resolutions at the EGM.

Notice of EGM

A notice of the EGM to be held at 10:30 a.m. on Tuesday, 19 February 2013 at Units 3306-12, 33/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong is set out on pages EGM-1 to EGM-4 of this circular for the purpose of considering and, if thought fit, approving the Rights Issue and the Whitewash Waiver.

The form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

All resolutions to be proposed at the EGM will be voted on by poll.

Subject to the Rights Issue and the Whitewash Waiver being approved at the EGM, the Prospectus or Prospectus Documents, where appropriate, containing further information on the Rights Issue will be despatched to the Shareholders as soon as practicable.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all independent non-executive Directors has been appointed to give recommendations to the Independent Shareholders in connection with the Rights Issue and the Whitewash Waiver. Your attention is drawn to the recommendation of the Independent Board Committee set out in its letter on pages 31 to 32 of this circular.

INDEPENDENT FINANCIAL ADVISER

Guangdong Securities has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Rights Issue and the Whitewash Waiver. The appointment of Guangdong Securities has been approved by the Independent Board Committee. Your attention is drawn to its letter to the Independent Board Committee and Independent Shareholders set out on pages 33 to 53 of this circular.

RECOMMENDATION

The Board (excluding Mr. Liu who is a member of the Concert Group and the independent non-executive Directors whose view on the Rights Issue as a whole is set out in the "Letter from the Independent Board Committee" contained in this circular), believes that the terms of the Rights Issue and the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

You are advised to read carefully the letter from the Independent Board Committee on pages 31 to 32 of this circular.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices of this circular.

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

The following is the full text of a letter from the Independent Board Committee, which has been prepared for the purpose of incorporation into this circular, setting out its recommendation to the Independent Shareholders in relation to the Rights Issue and the Whitewash Waiver.

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)

30 January 2013

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY EXISTING SHARE HELD ON THE RECORD DATE; AND APPLICATION FOR THE WHITEWASH WAIVER

We refer to the letter from the Board set out in the circular dated 30 January 2013 ("**Circular**") of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Rights Issue and the Whitewash Waiver and to advise the Independent Shareholders as to the fairness and reasonableness of the Rights Issue and the Whitewash Waiver and to recommend whether or not the Independent Shareholders should vote for the resolutions to be proposed at the EGM to approve the Rights Issue and the Whitewash Waiver. Guangdong Securities has been appointed to advise the Independent Board Committee in relation to the terms of the Rights Issue and the Whitewash Waiver.

We wish to draw your attention to the letter from Guangdong Securities to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Rights Issue and the Whitewash Waiver as set out in the Circular. We also draw your attention to the letter from the Board set out in the Circular.

Having taken into account the principal factors and reasons considered by and the opinion of Guangdong Securities as stated in its letter of advice, we consider the terms of the Rights Issue and the Whitewash Waiver are fair and reasonable so far as the interests of the Independent Shareholders are concerned and the Rights Issue and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolutions approving the Rights Issue and the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
Independent Board Committee
Chan Yiu Kwong **Zeng Liqing** **Wu Shihong**
Independent non-executive Directors

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding the Rights Issue and the Whitewash Waiver for the purpose of inclusion in this circular.

粵海證券有限公司
GUANGDONG SECURITIES LIMITED

Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

30 January 2013

To: The independent board committee and the independent shareholders of A8 Digital Music Holdings Limited

Dear Sirs,

(i) PROPOSED RIGHTS ISSUE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY EXISTING SHARE HELD ON THE RECORD DATE; AND (ii) APPLICATION FOR THE WHITEWASH WAIVER

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue and the Whitewash Waiver, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 30 January 2013 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 6 January 2013, 10 January 2013 and 25 January 2013, the Company announced that it proposed to raise not less than approximately HK$342.92 million (before expenses) to not more than HK$347.62 million (before expenses) by issuing not less than 952,564,752 Rights Shares and not more than 965,597,432 Rights Shares at the Subscription Price of HK$0.36 per Rights Share. The nil-paid Rights Shares will be provisionally allotted to the Qualifying Shareholders on the basis of two Rights Shares for every existing Share held by the Qualifying Shareholders on the Record Date.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite, on a fully underwritten basis, the Underwritten Shares, subject to the terms and conditions of the Underwriting Agreement.

Pursuant to Rule 7.19(6) of the Listing Rules, the Rights Issue is subject to the approval by the Shareholders at the EGM at which any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors) and the chief executive of the Company and their respective associates shall abstain from voting in favour. Therefore, the Concert Group and the respective associates of its members shall abstain from voting in favour of the resolution in relation to the Rights Issue at the EGM.

The underwriting by the Underwriter of the Rights Issue will trigger an obligation for the Concert Group to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by the Concert Group.

The Concert Group has not acquired any voting rights of the Company and has not dealt in any securities of the Company in the six months prior to the date of the First Announcement and up to the Latest Practicable Date.

The Underwriter has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders to be taken by poll at the EGM. (i) The Underwriter and persons acting in concert with it; (ii) the controlling Shareholders (i.e. the Underwriter, Prime Century, Mr. Liu and Grand Idea) and their respective associates; and (iii) those who are involved in, or interested in, the Underwriting Agreement and/or the Whitewash Waiver are required by the Takeovers Code to abstain from voting on the proposed resolution approving the Whitewash Waiver. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for the Underwriter and persons acting in concert with it, no Shareholders have interest in the Underwriting Agreement and/or the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolution at the EGM. The Executive has agreed, subject to approval by the Independent Shareholders, to waive any obligations on the part of the Underwriter to make a general offer which might result from the Underwriting Agreement. If the Whitewash Waiver is not granted by the Executive or if granted, is not approved by the Independent Shareholders, the Rights Issue will not proceed.

An Independent Board Committee comprising Mr. Chan Yiu Kwong, Mr. Zeng Liqing and Ms. Wu Shihong, all being independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Rights Issue (including the Underwriting Agreement) and the Whitewash Waiver are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Rights Issue and the Whitewash Waiver are in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote on the relevant resolution(s) to approve the Rights Issue and the Whitewash Waiver at the EGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than information relating to Ever Novel) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those expressed by Ever Novel) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement (other than those relating to Ever Novel) in the Circular misleading.

The directors of Ever Novel jointly and severally accept full responsibility for the accuracy of the information relating to Ever Novel contained in the Circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular by Ever Novel have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement relating to Ever Novel contained in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Underwriter or their respective subsidiaries or associated companies, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Rights Issue and the Whitewash Waiver. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

I. THE RIGHTS ISSUE

In arriving at our opinion in respect of the Rights Issue, we have taken into consideration the following principal factors and reasons:

(1) Background of and reasons for the Rights Issue

Business overview of the Group

The Group is principally engaged in providing music and culture related service, mainly including providing the mobile value-added services ("**MVAS**") focusing on music to mobile phone users in the PRC and offering personalised music service to mobile internet users in PRC.

Set out below is a summary of the key financial data of the Group for the two years ended 31 December 2011 and the six months ended 30 June 2012 as extracted from the Company's annual report for the year ended 31 December 2011 (the "**2011 Annual Report**") and interim report for the six months ended 30 June 2012 (the "**2012 Interim Report**"):

	For the six months ended 30 June 2012	**For the year ended 31 December 2011**	**For the year ended 31 December 2010**	**% change from 2010 to 2011**
	RMB'000	*RMB'000*	*RMB'000*	*%*
	(unaudited)	*(audited)*	*(audited)*	
Revenue	184,079	483,587	681,839	(29.08)
– Ringtone services	15,382	53,404	81,928	(34.82)
– Ringback tone services	108,070	246,448	238,878	3.17
– Interactive voice response music	–	–	3,234	(100.00)
– Other music related services	2,169	8,966	32,617	(72.51)
– Non-music related services	58,458	174,769	325,182	(46.26)
Gross profit	61,650	186,125	251,773	(26.07)
(Loss)/Profit for the period/year	(9,638)	12,915	42,318	(69.48)

	As at 30 June 2012	As at 31 December 2011	As at 31 December 2010	% change from 2010 to 2011
	RMB'000	*RMB'000*	*RMB'000*	*%*
	(unaudited)	*(audited)*	*(audited)*	
Net assets	535,679	540,778	521,518	3.69
Cash and cash equivalents	244,822	360,596	392,540	(8.14)
Interest-bearing bank borrowing	39,722	13,000	–	N/A

From the above table, we noted that the Group's revenue, gross profit and profit for the year ended 31 December 2011 deteriorated as compared to the year ended 31 December 2010. With reference to the 2011 Annual Report, such deterioration in the financial performance of the Group was mainly due to the continuing negative impact brought by the strict regulations implemented to the MVAS industry during 2010. We further noted that the Group turned to be loss making for the six months ended 30 June 2012.

As advised by the Directors, since the beginning of 2010, there have been some regulatory and policy changes in the MVAS industry as mobile users complained on the relevant MVAS regarding misleading product promotions and the absence of price notification, etc. As a result, The State Administration of Radio Film and Television (the "**SARFT**"), the Ministry of Industry and Information Technology of People's Republic of China and mobile operators have been implementing a series of new measures to address the issues, including but not limited to that (i) the SARFT has temporarily suspended the promotion of some specific interactive voice response products on all provincial radio and television station, which caused the revenue of the interactive voice response music segment of the Group turned to nil since the financial year ended 31 December 2011; and (ii) China Mobile requested price notification and multi confirmation before mobile users subscribe for products, which caused the revenue of the Group, in particular the revenue of the non-music related services segment to decrease. The revenue of the non-music related services segment of the Group decreased by approximately 46.26% during the year ended 31 December 2011 as compared to the year ended 31 December 2010.

As disclosed in the Profit Warning, the Group is expected to record a loss for the year ended 31 December 2012 which represents a significant decline as compared to the consolidated profit for the year ended 31 December 2011. As advised by the Directors, the anticipated loss was due to (i) the continuing negative impact brought by the series of measures and policies implemented to the MVAS industry by related management divisions and mobile operators in the PRC since 2010; (ii) the restructure of the current business and deployment of new business in the Company are still in process; and (iii) the effect of sharing of losses of associates of the Company.

Further details of the results of the Group will be disclosed in the results announcement of the Company for the financial year ended 31 December 2012 which is expected to be published by the end of March 2013 and the annual report of the Company for the financial year ended 31 December 2012.

Notwithstanding the above, with reference to the statistics of the National Bureau of Statistics of China, from 2007 to 2011, the PRC's gross domestic product ("**GDP**") increased at a compound annual growth rate ("**CAGR**") of approximately 15.38% and reached approximately RMB47,211.5 billion in 2011. The PRC also experienced substantial growth in GDP per capita with a CAGR of approximately 14.92% from 2007 to 2011 and reached approximately RMB35,181 in 2011. During the period from 2007 to 2011, annual disposable income of urban households per capita increased from approximately RMB13,786 to approximately RMB21,810, representing a CAGR of approximately 12.15%.

According to a report regarding the internet music industry in the PRC published by the Ministry of Culture of the People's Republic of China in 2012, (i) the revenue generated from the online music market increased with a CAGR of approximately 28.36% from 2007 to 2011 and reached approximately RMB380 million in 2011; (ii) the revenue generated from the wireless music market increased with a CAGR of approximately 14.02% from 2007 to 2011 and reached approximately RMB2,400 million in 2011; and (iii) there is increasing effort in suppression of the illegal operation of the internet music market.

The Directors expect that the regulatory and policy changes in the MVAS industry will bring negative financial impact to all related players in the industry in the short term, while in the long run, it will build a more healthy, proper and transparent MVAS environment in the whole value chain and hence will benefit the ultimate mobile users.

As detailed in the 2012 Interim Report and as further confirmed by the Directors, the Group aims to strengthen its operations regarding its music content, traditional, mobile internet and music cloud businesses in order to strive for the sustainable development of the Group. As further advised by the Directors, in general, the business of the Group is at its transition period now. Currently, the traditional MVAS business is in its downturn trend. Regarding the mobile internet business, the Group and its associates, including Duomi Music Holding Ltd, has achieved an expected progress by deploying music cloud in the home entertainment system and has accumulated certain user scale, of which Duomi Music Holding Ltd has more than 80 million users, yet the profit model is still at the testing stage. Nevertheless, the Directors believe that the Group's business will grow in the coming future foreseeing that purchasing licensed music online will be the trend.

As for the financial position of the Group, the Group recorded cash and cash equivalents of approximately RMB244.82 million and interest-bearing bank borrowing of approximately RMB39.72 million as at 30 June 2012. As further advised by the Directors, the interest-bearing bank borrowing of the Group amounted to approximately RMB69.57 million as at 30 November 2012.

Reasons for the Rights Issue and use of proceeds

As referred to in the Board Letter, the Directors believe that the Rights Issue is in the best interest of the Group and the Shareholders as a whole and it would enable the Group to enlarge its capital base and strengthen the financial position of the Group.

The Rights Issue would also enable the Qualifying Shareholders to maintain their respective pro rata shareholding interest in the Group and participate in the future growth of the Group by participating in the Rights Issue.

With reference to the Board Letter, the estimated net proceeds from the Rights Issue will be approximately HK$337.42 million after the deduction of all estimated expenses (assuming no Shares have been allotted and issued before the Record Date pursuant to any exercise of the Share Options and that no Shares have been allotted and issued on or before the Record Date), or approximately HK$342.01 million (assuming Shares have been allotted and issued before the Record Date pursuant to full exercise of the Share Options (other than the Director Share Options) but otherwise no Shares have been allotted and issued on or before the Record Date).

As set out in the 2012 Interim Report, the Group had interest-bearing bank borrowing of approximately RMB39.72 million as at 30 June 2012. As advised by the Directors, the Group had interest-bearing bank borrowing of approximately RMB69.57 million (equivalent to approximately HK$85.80 million) as at 30 November 2012. The said borrowings were used for the construction of A8 building of the Group, which is expected to complete in the first half of 2013. Pursuant to the terms of the existing banking facility, the Group is required to start to repay such bank loans, subject to the amount drawn, from June 2014 and the Group is required to repay RMB4 million (equivalent to approximately HK$4.93 million) per month from June 2014 to May 2015, RMB6 million (equivalent to approximately HK$7.40 million) per month from June 2015 to May 2016 and RMB6.25 million (equivalent to approximately HK$7.71 million) per month thereafter until full repayment. To avoid incurring further interest expenses, the Directors currently intend to apply the net proceeds from the Rights Issue of approximately HK$85.8 million on the settlement of the Group's loan payables to certain banks. The Directors also intend to apply approximately HK$210 million on the continuing investments in the construction of the A8 building and the remaining balance of approximately HK$41.62 million as general working capital to facilitate the Group's development and business.

We noted that the amount of the net proceeds from the Rights Issue for the continuing investments in the construction of the A8 building is substantial. For our due diligence purpose, we have further enquired into the Directors regarding details of the A8 building, including but not limited to its location, gross floor area, intended use, construction status, expected construction costs and expected benefits to be accrued to the Group. In addition, we have obtained and reviewed the breakdown of the approximately HK$210 million to be applied for the continuing investments in the construction of the A8 building.

According to the Directors, the A8 building will serve as the Group's headquarters, theater, audio labs, studios and demo rooms, in which additional space will be used for rental purpose. The A8 building, as the operator of the "Guangdong National Music Industrial Base – Digital Music Industry Park", will also serve as a hub for the creation, collection, production, distribution, performance, exhibition, trading as well as research and development of digital music.

The Directors expect that the construction of the A8 building will assists in promoting the brand name of the Company as well as original produced music content. Through the integration of resources, it is expected to help nurture music talents and the Group is aspired to become Shenzhen's new cultural communication and consumption center. The Group estimates that after the completion of construction of the A8 building, the Group will be able to make a rental saving as well as secure rental income for leasing part of the A8 building out.

The Directors further advised us that the major areas of construction had already been completed while the interior renovation and other accessories are expected to be completed around mid 2013. The total construction cost for the A8 building is expected to be approximately HK$330.25 million, in which approximately HK$120 million had been used and approximately HK$84 million will be used on the construction of the building, approximately HK$91.25 million will be used on the interior renovation and the exterior glass walls, approximately HK$22.5 million will be used on the studios, demo rooms and theatre, and approximately HK$12.5 million will be used on the air conditioning and electricity.

Taking into account the foregoing reasons for the Rights Issue (including the Directors' view that the Rights Issue would enable the Group to enlarge its capital base and strengthen the financial position of the Group while allowing the Qualifying Shareholders to maintain their respective pro rata shareholding interest in the Group and participate in the future growth of the Group by participating in the Rights Issue) and the intended use of proceeds from the Rights Issue based on the Group's latest liquidity position and development strategies, we are of the opinion that the reasons for the Rights Issue are justifiable.

Financing alternatives available to the Group

With reference to the Board Letter, the Company has not effected any equity fund raising exercises in the 12 months immediately preceding the Latest Practicable Date.

In this respect, we have further enquired into the Directors and were informed by the Directors that they have considered debt financing and equity financing as possible financing alternatives available to the Group. For debt financing, since it is expected that the Group would be unable to obtain bank borrowings with favourable terms under the current volatile market condition and given the Group's existing loss making position, the Directors consider debt financing to be less preferable to the Group.

With regard to equity financing, the Directors are of the view that in light of the substantial amount of Shares to be issued, any placing exercise, which deprives the rights of the Shareholders to participate in, would cause material dilution effect to the shareholding interests of the existing Shareholders in the Company, and hence would not be in the interest of the Shareholders. In addition, as the Board is confident in the future business development of the Group, the Board would like to provide a chance for all Shareholders to share the potential prospects of the Group. Upon our enquiry, the Directors further advised us that although both open offer and rights issue would allow all Shareholders to participate in the enlargement of the capital base of the

Company and to maintain their proportionate shareholding interests in the Company, a rights issue would also allow those Shareholders who do not want to participate in the fund raising of the Company to dispose of their rights shares entitlements in the market in nil-paid form. As a result, the Directors are of the view that it is in the interests of the Company and the Shareholders as a whole to raise fund through the Rights Issue.

Having taken into consideration the aforesaid weaknesses of the other financing alternatives and the possible benefits of the Rights Issue, we concur with the Directors that the Rights Issue is an appropriate financing method currently available to the Company and the Rights Issue is in the interests of the Company and the Shareholders as a whole.

(2) Principal terms of the Rights Issue

The table below summarises the major terms of the Rights Issue:

Basis of the Rights Issue:	Two Rights Shares for every existing Share held on the Record Date
Number of existing Shares in issue:	476,282,376 Shares as at the Latest Practicable Date
Number of new Shares to be issued upon exercise of the outstanding Share Options in full (other than those Director Share Options) *(Note 1)*:	6,516,340 Shares
Number of Rights Shares:	Not less than 952,564,752 *(Note 2)* Rights Shares but not more than 965,597,432 *(Note 2)* Rights Shares
Enlarged issued share capital upon completion of the Rights Issue:	Not less than 1,428,847,128 Shares but not more than 1,448,396,148 Shares
The Subscription Price:	HK$0.36 per Rights Share
Underwriter:	Ever Novel

Notes:

1. As at the Latest Practicable Date, the Company had outstanding Share Options entitling the holders thereof to subscribe for an aggregate of 9,311,781 Shares, among which the Share Options entitling the holders thereof to subscribe for an aggregate of 2,795,441 Shares were Director Share Options. Pursuant to the Director Undertakings, each of Mr. Liu and Mr. Lu Bin, both being executive Directors, has undertaken to the Company not to exercise their respective Director Share Options from the date of the Director Undertakings until the date on which trading of the Rights Shares (in their fully paid form) commences on the Stock Exchange.

2. The figure of 952,564,752 is calculated on the assumption that no outstanding Share Options will be exercised and no other Shares are allotted and issued on or before the Record Date, and the figure of 965,597,432 is calculated on the assumption that all outstanding Share Options (other than the Director Share Options) will be exercised in full but no other Shares are allotted and issued on or before the Record Date.

The Subscription Price

HK$0.36 per Rights Share will be payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 43.75% to the closing price of HK$0.64 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 52.00% to the closing price of HK$0.75 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iii) a discount of approximately 50.55% to the average closing price of approximately HK$0.728 per Share for the five consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 50.28% to the average closing price of approximately HK$0.724 per Share for the ten consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 26.53% to the theoretical ex-rights price of approximately HK$0.49 per Share based on the closing price of HK$0.75 per Share as quoted on the Stock Exchange on the Last Trading Day;

(vi) a discount of approximately 74.10% to the unaudited consolidated net asset value per Share of approximately HK$1.39 (based on the latest published unaudited consolidated net asset value of the Group attributable to the Shareholders of approximately RMB535,679,000 (equivalent to approximately HK$660,638,836) as at 30 June 2012 and 476,282,376 Shares in issue as at the Latest Practicable Date); and

(vii) a discount of approximately 72.31% to the unaudited consolidated net tangible asset value per Share of approximately HK$1.30 (based on the latest published unaudited consolidated net tangible asset value of the Group attributable to the Shareholders of approximately RMB503,623,000 (equivalent to approximately HK$621,105,013) as at 30 June 2012 and 476,282,376 Shares in issue as at the Latest Practicable Date).

According to the Board Letter, the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the market price of the Shares under the prevailing market conditions. As further advised by the Directors, as the Rights Shares are offered to all Qualifying Shareholders, the Directors would like to set the Subscription Price at a level that would attract the Qualifying Shareholders to participate in the Rights Issue.

Analyses on the Subscription Price

In order to assess the fairness and reasonableness of the Subscription Price, we set out the following informative analyses for illustrative purpose:

(i) Review on Share prices

The highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each month during the period commencing from 1 January 2012 up to and including the Latest Practicable Date (the "**Review Period**") are shown as follows:

Month	**Highest closing price** *(HK$)*	**Lowest closing price** *(HK$)*	**Average daily closing price** *(HK$)*
2012			
January	0.930	0.820	0.868
February	1.310	0.870	1.070
March	1.280	0.900	1.102
April	0.940	0.860	0.906
May	0.930	0.830	0.875
June	0.920	0.810	0.862
July	0.880	0.720	0.795
August	0.790	0.660	0.737
September	0.820	0.650	0.728
October	0.830	0.740	0.777
November	0.810	0.750	0.777
December	0.760	0.700	0.728
2013			
January (up to and including the Latest Practicable Date)	0.750	0.640	0.669

Source: the Stock Exchange web-site (www.hkex.com.hk)

During the Review Period, the average daily closing price of the Shares ranged from HK$0.669 to HK$1.102 per Share in each month. The lowest and highest closing prices of the Shares as quoted on the Stock Exchange were HK$0.640 per Share recorded on 8 January 2013, 9 January 2013 and the Latest Practicable Date and HK$1.310 per Share recorded on 29 February 2012 respectively. After the closing prices of the Shares reached its peak on 29 February 2012, the closing prices of the Shares showed a general sliding trend and the Subscription Price has been below the closing prices of the Shares during the Review Period. According to the Directors, they were not aware of any specific events of the Company which had happened during the Review Period and caused the general sliding trend of the Share price.

(ii) Review on trading liquidity of the Shares

The number of trading days, the average daily number of the Shares traded per month, and the respective percentages of the Shares' monthly trading volume as compared to (i) the total number of issued Shares held by the public as at the Latest Practicable Date; and (ii) the total number of issued Shares as at the Latest Practicable Date during the Review Period are tabulated as follows:

Month	**Number of trading days**	**Average daily trading volume (the "Average Volume")**	**% of the Average Volume to total number of issued Shares held by the public as at the Latest Practicable Date** *(Note 1)*	**% of the Average Volume to total number of issued Shares as at the Latest Practicable Date** *(Note 2)*
		Shares	*%*	*%*
2012				
January	18	603,667	0.21	0.13
February	21	4,283,891	1.50	0.90
March	22	1,665,109	0.58	0.35
April	18	467,886	0.16	0.10
May	22	218,455	0.08	0.05
June	21	224,918	0.08	0.05
July	21	312,850	0.11	0.07
August	23	343,826	0.12	0.07
September	20	786,235	0.28	0.17
October	20	421,200	0.15	0.09
November	22	214,647	0.08	0.05
December	19	306,526	0.11	0.06
2013				
January (up to and including the Latest Practicable Date)	18	4,730,719	1.66	0.99

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. Based on 285,296,422 Shares held by the public as at the Latest Practicable Date.

2. Based on 476,282,376 Shares in issue as at the Latest Practicable Date.

The above table illustrates that the average daily trading volume of the Shares per month had been thin during the Review Period. Save for February 2012 and January 2013, the volume of Shares traded during the entire Review Period was below 1% of the total number of issued Shares held by the public as at the Latest Practicable Date. Since the Shares were generally illiquid in the open market, we concur with the Directors that it would be difficult to attract the Qualifying Shareholders to reinvest in the Company through the Rights Issue if the Subscription Price was not set at discount to the historical closing prices of the Shares. With this being the case and in view of the general sliding trend of the Share price during the Review Period, we are of the view that the discount to the Share price as represented by the Subscription Price is justifiable.

(iii) Comparison with other rights issue transactions

As part of our analyses, we have identified those rights issue transactions (the "**Comparables**") from 1 October 2012 up to the Latest Practicable Date, being the approximate four-month period prior to and including the Latest Practicable Date, by companies listed on the Stock Exchange. We are of the view that unlike acquisitions or disposals under which the price multiples ratios of companies with similar businesses, operations and prospects are important for comparison and reference purpose, stock market conditions and sentiments are the more crucial factors to consider in rights issue transactions. Besides that, we noted that the stock market conditions and sentiments are ever-changing and have thus identified all Comparables which took place from 1 October 2012 up to the Latest Practicable Date, being the recent period around the time the Rights Issue was proposed, for comparison purpose. We consider that the terms of the Comparables were determined under similar market conditions and sentiments as the Rights Issue.

To the best of our knowledge and as far as we are aware of, we found 15 companies which met the said criteria. The purpose of the Comparables is to provide a general reference for the common market practice in recent rights issue transactions conducted by listed companies in Hong Kong regardless of their respective businesses, operations and prospects. Summarised below is our relevant finding:

Company name	Stock code	Date of announcement	Discount of the subscription price to closing price per share on the last trading day prior to/on the date of the announcement in relation to the respective rights issue	Discount of the subscription price to the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to/on the date of the announcement in relation to the respective rights issue	Underwriting commission
			%	%	%
Ming Kei Holdings Limited	8239	16 January 2013	(95.83)	(79.31)	4.00
Up Energy Development Group Limited	307	8 January 2013	(54.50)	(44.40)	2.00
Capital VC Limited	2324	3 January 2013	(25.29)	(18.41)	3.00
Hong Kong Resources Holdings Company Limited	2882	12 December 2012	(50.00)	(41.63)	1.70
Freeman Financial Corporation Limited	279	4 December 2012	(51.43)	(26.09)	3.00
Asia Commercial Holdings Limited	104	27 November 2012	(87.50)	(63.60)	2.00

Company name	Stock code	Date of announcement	Discount of the subscription price to closing price per share on the last trading day prior to/on the date of the announcement in relation to the respective rights issue	Discount of the subscription price to the theoretical ex-rights price per share based on the closing price per share on the last trading day prior to/on the date of the announcement in relation to the respective rights issue	Underwriting commission
			%	%	%
Willie International Holdings Limited	273	21 November 2012	(41.34)	(31.97)	2.50
Dragonite International Limited	329	20 November 2012	(48.98)	(32.43)	2.50
China Agri-Industries Holdings Limited	606	5 November 2012	(31.38)	(25.98)	Nil
Tack Fiori International Group Limited	928	2 November 2012	(40.48)	(31.13)	2.50
Qin Jia Yuan Media Services Company Limited	2366	2 November 2012	(55.70)	(38.60)	2.50
Esprit Holdings Limited	330	22 October 2012	(35.70)	(27.00)	2.50 *(Note 1)*
National Arts Holdings Limited	8228	18 October 2012	(81.13)	(46.24)	3.75
Easyknit Enterprises Holdings Limited	616	11 October 2012	(75.61)	(34.07)	1.00
SIM Technology Group Limited	2000	5 October 2012	(55.56)	(45.50)	2.00 *(Note 2)*
Minimum			**(25.29)**	**(18.41)**	**Nil**
Maximum			**(95.83)**	**(79.31)**	**4.00**
Average			**(55.36)**	**(39.09)**	**2.33**
The Company	**800**	**6 January 2013**	**(52.00)**	**(26.53)**	**2.00**

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. 2.25% of the aggregate subscription price of the underwritten shares plus a discretionary fee of 0.25% of the aggregate subscription price of the underwritten shares to be determined at the absolute and sole discretion of Esprit Holdings Limited.

2. (i) 2% of the aggregate subscription price in respect of a maximum of 488,121,500 underwritten shares in which independent shareholders of SIM Technology Group Limited are entitled under the rights issue; and (ii) nil for the underwritten shares in which the connected persons of SIM Technology Group Limited are entitled under the rights issue.

From the above table, we noted that while the Comparables differ from one another in terms of businesses, operations and prospects, the subscription prices of all of the Comparables were set at discounts to their last trading day's share prices and theoretical ex-rights prices in order to encourage subscription by their shareholders.

(3) The Underwriter and the underwriting arrangements

With reference to the Board Letter, the Underwriter is 100% beneficially owned by a family trust, the beneficiaries of which are the family members of Mr. Liu. Mr. Liu is the chairman of the Company and an executive Director and held 1,922,000 Shares as at the Latest Practicable Date, representing approximately 0.40% of the existing issued share capital of the Company. As at the Latest Practicable Date, the Underwriter, together with Prime Century, held in aggregate 167,463,954 Shares, representing approximately 35.16% of the issued share capital of the Company. Grand Idea held 21,600,000 Shares as at the Latest Practicable Date, representing approximately 4.54% of the existing issued share capital of the Company. The principal business of the Underwriter is investment holding. The Underwriter does not underwrite issues of securities in its ordinary course of business.

Pursuant to the Underwriting Agreement, the Underwriter irrevocably undertakes to the Company to (i) accept the 90,184,098 Rights Shares to be provisionally allotted to it, and that all Shares beneficially owned by it as at the date of the Underwriting Agreement will remain beneficially owned by it as on the Record Date; and (ii) procure Prime Century to accept the 244,743,810 Rights Shares to be provisionally allotted to it, and that all Shares beneficially owned by Prime Century as at the date of the Underwriting Agreement will remain beneficially owned by it as on the Record Date.

Pursuant to the Director Undertakings, each of Mr. Liu and Mr. Lu Bin, both being executive Directors, has undertaken to the Company not to exercise their respective Director Share Options from the date of the Director Undertakings until the date on which trading of the Rights Shares (in their fully paid form) commences on the Stock Exchange. Mr. Liu has also undertaken to accept and pay for all 3,844,000 Rights Shares to be provisionally allotted to him on the Record Date.

Pursuant to the Grand Idea Undertaking, Grand Idea has irrevocably undertaken, among other matters, to accept and pay for all 43,200,000 Rights Shares to be provisionally allotted to it on the Record Date.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite not less than 570,592,844 Rights Shares (assuming no Shares have been allotted and issued before the Record Date pursuant to any exercise of the outstanding Share Options and that no Shares have been allotted and issued on or before the Record Date) and not more than 583,625,524 Rights Shares (assuming Shares have been allotted and issued on or before the Record Date pursuant to the full exercise of the outstanding Share Options (other than the Director Share Options) but otherwise no Shares have been allotted and issued on or before the Record Date).

The underwriting commission payable by the Company to the Underwriter is 2% of the total subscription price of the Underwritten Shares mentioned above (the "**Underwriting Commission**").

From the table in the section headed "Comparison with other rights issue transactions" above, we noted that the Underwriting Commission falls within the range of commissions of nil to 4.00% received by underwriters in other rights issue transactions and is lower than the average commissions received by underwriters in other rights issue transactions. Given the above, we are of the opinion that the Underwriting Commission is in line with the common market practice.

(4) Application for excess Rights Shares

With reference to the Board Letter, Qualifying Shareholders shall be entitled to apply for (i) Rights Shares representing the entitlement of the Excluded Shareholders and which cannot be sold at a net premium; and (ii) any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders. Application may be made by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for. The Board will allocate the excess Rights Shares at its discretion, but on a fair and equitable basis as far as practicable, and on the following principles:

(1) preference will be given to applications for less than a board lot of Rights Shares where they appear to the Directors that such applications are made to round up odd-lot holdings to whole-lot holdings and that such applications are not made with intention to abuse the mechanism; and

(2) subject to availability of excess Rights Shares after allocation under principle (1) above, the excess Rights Shares will be allocated to the Qualifying Shareholders based on a sliding scale with reference to the number of the excess Rights Shares applied by them (i.e. Qualifying Shareholders applying for smaller number of Rights Shares will be allocated a higher percentage of the excess Rights Shares they have applied for whereas Qualifying Shareholders applying for larger number of Rights Shares will be allocated a lower percentage of the excess Rights Shares they have applied for (although they will still receive a greater number of Rights Shares than those applying for a smaller number) with board lot allocations to be made on a best effort basis. No reference will be made to Rights Shares comprised in applications by provisional allotment letter or the existing number of Shares held by Qualifying Shareholders.

Members of the Concert Group who held Shares as at the Latest Practicable Date have undertaken that they will not acquire any Shares (other than Rights Shares that will be provisionally allotted to them) until the Latest Time for Acceptable of and Payment for Rights Shares. As such, none of them will apply for any excess Rights Shares.

Taking into account the above terms of the Rights Issue and the Underwriting Agreement, we concur with the Directors that the terms of the Rights Issue and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

(5) Potential dilution of the shareholding interests of the public Shareholders

A table which demonstrates the possible shareholding structure of the Company as at the Latest Practicable Date and immediately upon completion of the Rights Issue is contained under the section headed "Shareholding structure" in the Board Letter.

All Qualifying Shareholders are entitled to subscribe for the Rights Shares. For those Qualifying Shareholders who take up their entitlements in full under the Rights Issue, their proportional shareholding interests in the Company will remain unchanged after the Rights Issue.

Qualifying Shareholders who do not accept the Rights Issue can, subject to the then prevailing market condition, consider selling their nil-paid rights to subscribe for the Rights Shares in the market. In such case, where all Qualifying Shareholders do not accept the Rights Issue and hence the Underwriter is obligated to take up the unsubscribed Rights Shares except for those undertaken to be subscribed by the Concert Group pursuant to the Underwriting Agreement, the Liu Undertaking and the Grand Idea Undertaking respectively, the proportional shareholding interests of the Qualifying Shareholders in the Company will be diluted by a maximum of approximately 39.93 percent point (assuming no exercise of the outstanding Share Options on or before the Record Date) or a maximum of approximately 40.29 percent point (assuming full exercise of the outstanding Share Options (other than the Director Share Options) on or before the Record Date). Details of such dilution effect are presented in the aforesaid table as contained under the section headed "Shareholding structure" in the Board Letter.

Meanwhile, those Qualifying Shareholders who wish to increase their proportional shareholding interests in the Company through the Rights Issue may (i) subject to availability, acquire additional nil-paid rights in the market; and/or (ii) apply for the excess Rights Shares since the Rights Issue also allows for excess application of the Rights Shares.

We are aware of the aforementioned potential dilution to the Independent Shareholders' proportional shareholding interests in the Company. Nonetheless, we consider that the foregoing should be balanced against by the following factors:

- Independent Shareholders are offered a chance to express their views on the terms of the Rights Issue and the Underwriting Agreement through their votes at the EGM;

- Qualifying Shareholders have their choice whether to accept the Rights Issue or not;

- Qualifying Shareholders have the opportunity to realise their nil-paid rights to subscribe for the Rights Shares in the market;

- the Rights Issue offers Qualifying Shareholders a chance to subscribe for their pro-rata Rights Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the historical and prevailing market price of the Shares; and

- those Qualifying Shareholders who choose to accept the Rights Issue in full can maintain their respective existing shareholding interests in the Company after the Rights Issue.

Having considered the above, we consider the potential dilution effect on the shareholding interests of the Independent Shareholders, which may only happen when the Qualifying Shareholders do not subscribe for their pro-rata Rights Shares, to be acceptable.

(6) Financial effects of the Rights Issue

Effect on NTAV

An unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to the equity holders based on the unaudited consolidated net tangible asset value ("**NTAV**") of the Group attributable to the equity holder as at 30 June 2012 as if the Rights Issue had been completed on 30 June 2012 is set out in Appendix II to the Circular (the "**Statement**").

The unaudited pro forma adjusted consolidated NTAV of the Group attributable to the equity holders and the unaudited pro forma adjusted consolidated NTAV of the Group per Share attributable to the equity holders were approximately RMB503.62 million and approximately RMB1.06 respectively as at 30 June 2012. Upon completion of the Rights Issue, (i) the unaudited pro forma adjusted consolidated NTAV of the Group attributable to the equity holders would increase to approximately RMB777.21 million (assuming no exercise of the outstanding Share Options on or before the Record Date) and approximately RMB780.95 million (assuming full exercise of the outstanding Share Options (other than the Director Share Options) on or before the Record Date) respectively according to the Statement; and (ii) the unaudited pro forma adjusted consolidated NTAV of the Group per Share attributable to the equity holders would decrease to approximately RMB0.54.

Effect on gearing position

As advised by the Directors, the Group's gearing ratio is calculated as the total borrowings over the total assets. As confirmed by the Directors, the total borrowings of the Group would decrease while the total assets of the Group would be enlarged upon completion of the Rights Issue. Consequently, the gearing ratio of the Group would be improved due to the Rights Issue.

Effect on liquidity

With reference to the 2012 Interim Report, the cash and cash equivalents of the Group were approximately RMB244.82 million as at 30 June 2012. As confirmed by the Directors, the Group's liquidity position would be improved upon completion of the Rights Issue as part of the net proceeds from the Rights Issue will be applied as general working capital of the Group.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon completion of the Rights Issue.

RECOMMENDATION ON THE RIGHTS ISSUE

Having taken into account the above principal factors and reasons, we consider that (i) the terms of the Rights Issue (including the Underwriting Agreement) are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Rights Issue and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

II. THE WHITEWASH WAIVER

As at the Latest Practicable Date, (i) the Underwriter, together with Prime Century, held in aggregate 167,463,954 Shares, representing approximately 35.16% of the existing issued share capital of the Company; (ii) Mr. Liu held 1,922,000 Shares, representing approximately 0.40% of the existing issued share capital of the Company; and (iii) Grand Idea, being a member of the Concert Group, directly held 21,600,000 Shares, representing approximately 4.54% of the existing issued share capital of the Company. In the event that the Underwriter is called upon to subscribe for the Underwritten Shares in full pursuant to its obligations under the Underwriting Agreement, the interest of the Concert Group in the voting rights of the Company would increase from approximately 40.10% to approximately 80.03% immediately upon completion of the Rights Issue (assuming that no outstanding Share Options are exercised and no other Shares are allotted and issued on or before the Record Date) or from approximately 39.56% to approximately 79.85% immediately upon completion of the Rights Issue (assuming that all outstanding Share Options (other than the Director Share Options) are exercised in full but no other Shares are allotted and issued on or before the Record Date). Accordingly, the underwriting by the Underwriter of the Rights Issue will trigger an obligation for the Concert Group to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares not already owned or agreed to be acquired by the Concert Group.

The Concert Group has not acquired any voting rights of the Company and has not dealt in any securities of the Company in the six months prior to the date of the First Announcement and up to the Latest Practicable Date.

The Underwriter has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 of the Notes on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, would be subject to, among other things, the approval of the Independent Shareholders to be taken by poll at the EGM. (i) The Underwriter and persons acting in concert with it; (ii) the controlling Shareholders (i.e. the Underwriter, Prime Century, Mr. Liu and Grand Idea) and their respective associates; and (iii) those who are involved in, or interested in, the Underwriting Agreement and/or the Whitewash Waiver are required by the Takeovers Code to abstain from voting on the proposed resolution approving the Whitewash Waiver. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for the Underwriter and persons acting in concert with it, no Shareholders have interest in the Underwriting Agreement and/or the Whitewash Waiver which requires him/her/it to abstain from voting on the relevant resolution at the EGM. The Executive has agreed, subject to approval by the Independent Shareholders, to waive any obligations on the part of the Underwriter to make a general offer which might result from the Underwriting Agreement. If the Whitewash Waiver is not granted by the Executive or if granted, is not approved by the Independent Shareholders, the Rights Issue will not proceed.

Upon completion of the Rights Issue, the Underwriter and parties acting in concert with it may hold more than 50% of the enlarged issued share capital of the Company, in which case, the Underwriter and parties acting in concert with it may acquire further voting rights in the Company without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer.

In light of (i) the reasons for and the possible benefits of the Rights Issue to the Group as set forth in the section headed "Background of and reasons for the Rights Issue" above; and (ii) the terms of the Rights Issue and the Underwriting Agreement being fair and reasonable so far as the Independent Shareholders are concerned, we are of the opinion that the approval of the Whitewash Waiver, which is a prerequisite for the completion of the Rights Issue, is in the interests of the Company and the Shareholders as a whole and is fair and reasonable for the purpose of proceeding with the Rights Issue.

RECOMMENDATION ON THE WHITEWASH WAIVER

Having taken into account the reasons for and possible benefits of the Rights Issue and the Underwriting Agreement, and that the Rights Issue is conditional upon the grant of the Whitewash Waiver, as summarised below:

(a) the Rights Issue would enable the Group to enlarge its capital base and strengthen the financial position of the Group;

(b) the Rights Issue would enable the Qualifying Shareholders to maintain their respective pro rata shareholding interest in the Group and participate in the future growth of the Group by participating in the Rights Issue;

(c) the Rights Issue is an appropriate financing method currently available to the Company;

(d) the principal terms of the Rights Issue, including the Subscription Price which was arrived at after arm's length negotiation between the Company and the Underwriter with reference to the market price of the Shares under the prevailing market conditions, given the general sliding trend of the Share price and the relatively poor trading liquidity of the Shares during the Review Period and it is normal market practice to offer discount to enhance the attractiveness of a rights issue, is fair and reasonable so far as the Independent Shareholders are concerned;

(e) the principal terms of the Underwriting Agreement, including the Underwriting Commission, being in line with the common market practice; and

(f) the overall financial effects of the Rights Issue (i.e. decrease in NTAV per Share being balance by (i) increase in NTAV; and (ii) improvement in the gearing ratio and working capital position of the Group),

we consider that the Whitewash Waiver is in the interests of the Company and the Shareholders as a whole and is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM to approve the Whitewash Waiver and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the consolidated financial information of the Group for each of the six months ended 30 June 2012 and 2011 and the three years ended 31 December 2011, 2010 and 2009, as extracted from the relevant interim and annual reports of the Company.

(i) Results

	For the six months ended 30 June		For the year ended 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(audited)	(audited)	(audited)
REVENUE	184,079	249,176	483,587	681,839	707,148
Business tax	(3,741)	(5,628)	(11,546)	(11,493)	(11,292)
Net revenue	180,338	243,548	472,041	670,346	695,856
Cost of services provided	(118,688)	(145,079)	(285,916)	(418,573)	(425,723)
Gross profit	61,650	98,469	186,125	251,773	270,133
Other income and gains, net	4,480	8,677	11,637	13,758	11,543
Selling and marketing expenses	(46,818)	(68,884)	(124,032)	(142,768)	(112,852)
Administrative expenses	(24,088)	(25,797)	(53,472)	(64,801)	(50,145)
Other expenses	(843)	(530)	(979)	(10,529)	(87)
Share of loss of an associate	(3,199)	–	(1,123)	–	–
PROFIT/(LOSS) BEFORE TAX	(8,818)	11,935	18,156	47,433	118,592
Income tax expense	(820)	(2,384)	(5,241)	(5,115)	(16,423)
PROFIT/(LOSS) FOR THE YEAR	(9,638)	9,551	12,915	42,318	102,169
Attributable to:					
Owners of the Company	(9,638)	9,323	12,687	41,765	102,008
Non-controlling interests	–	228	228	553	161
	(9,638)	9,551	12,915	42,318	102,169
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY					
Basic (RMB per share)	(0.02)	0.02	0.03	0.09	0.23
Diluted (RMB per share)	(0.02)	0.02	0.03	0.09	0.22

(ii) Assets and liabilities

	As at 30 June		As at 31 December		
	2012	**2011**	**2011**	**2010**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	**(unaudited)**	**(audited)**	**(audited)**	**(audited)**
Total assets	666,583	650,071	668,352	641,032	602,121
Total liabilities	130,904	116,786	127,574	119,514	119,343
Equity attributable to equity holders of the Company	535,679	533,285	540,778	520,692	481,967
Non-controlling interest	–	–	–	826	811
Total equity	535,679	533,285	540,778	521,518	482,778

Notes:

1. No qualified opinion has been issued by the Company's auditors in respect of the financial statements for the three years ended 31 December 2009, 2010 and 2011.

2. There were no items which are exceptional because of size, nature or incidence in respect of the consolidated financial statements of the Group for the three years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2012.

3. No dividend was declared for the two years ended 31 December 2010 and 2011 and for the six months ended 30 June 2012. For the year ended 31 December 2009, the Board has declared a final dividend of HK$0.05 per Share and the total amount of dividend paid is approximately HK$20.1 million.

4. Save for the adoption of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants, there has been no change in the accounting policies of the Group for the three years ended 31 December 2009, 2010 and 2011 and for the six months ended 30 June 2012.

2. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2012

Set out below are the unaudited consolidated financial statements of the Group for the six months ended 30 June 2012 together with the comparative figures for the six months ended 30 June 2011 and accompanying notes as extracted from the Company's 2012 interim report:

Condensed Consolidated Income Statement
For the six months ended 30 June 2012

		For the six months ended 30 June	
		2012	**2011**
	Notes	*(Unaudited)*	*(Unaudited)*
		RMB'000	*RMB'000*
Revenue		184,079	249,176
Business tax		(3,741)	(5,628)
Net revenue	3	180,338	243,548
Cost of services provided		(118,688)	(145,079)
Gross profit		61,650	98,469
Other income and gains, net	3	4,480	8,677
Selling and marketing expenses		(46,818)	(68,884)
Administrative expenses		(24,088)	(25,797)
Other expenses		(843)	(530)
Share of losses of associates		(3,199)	–
PROFIT/(LOSS) BEFORE TAX	4	(8,818)	11,935
Income tax expense	5	(820)	(2,384)
PROFIT/(LOSS) FOR THE PERIOD		(9,638)	9,551
Attributable to:			
Owners of the Company		(9,638)	9,323
Non-controlling interests		–	228
		(9,638)	9,551
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	7		
Basic (RMB per share)		(0.02)	0.02
Diluted (RMB per share)		(0.02)	0.02

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Profit/(loss) for the period	(9,638)	9,551
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange realignment	1,640	(73)
Total comprehensive income/(loss) for the period, net of tax	(7,998)	9,478
Attributable to:		
Owners of the parent	(7,998)	9,250
Non-controlling interests	–	228
	(7,998)	9,478

Condensed Consolidated Statement of Financial Position
As at 30 June 2012

	Notes	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	72,284	60,509
Prepaid land lease payments		26,534	26,825
Goodwill		1,515	1,515
Prepayment for acquisition of property, plant and equipment		8,351	4,593
Intangible assets		30,541	30,855
Investment in associates	9	19,978	4,177
Deposit for acquisition of an investment		–	8,000
Deferred tax assets		4,431	4,594
Total non-current assets		163,634	141,068
CURRENT ASSETS			
Accounts receivable	10	67,198	55,058
Prepayments, deposits and other receivables		25,622	37,839
Investments at fair value through profit or loss		77,950	1,880
Time deposits with original maturity of more than three months		87,357	71,911
Cash and cash equivalents		244,822	360,596
Total current assets		502,949	527,284
CURRENT LIABILITIES			
Accounts payable	11	28,002	26,483
Other payables and accruals		50,105	72,439
Tax payable		5,842	7,201
Deferred income		5,721	6,808
Total current liabilities		89,670	112,931

	Notes	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
NET CURRENT ASSETS		413,279	414,353
TOTAL ASSETS LESS CURRENT LIABILITIES		576,913	555,421
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing		39,722	13,000
Deferred tax liabilities		1,512	1,643
Total non-current liabilities		41,234	14,643
Net assets		535,679	540,778
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*12*	4,204	4,201
Reserves		531,475	536,577
Total equity		535,679	540,778

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Attributable to owners of the Company											
	Issued capital	Share premium account	Shares held under share award scheme	Merger reserve	Surplus contributions	Employee share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Total
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2012	4,201	184,959	(1,816)	29,135	10,522	20,394	2,132	10,833	21,399	4,422	254,597	540,778
Profit for the period	–	–	–	–	–	–	–	–	–	–	(9,638)	(9,638)
Other comprehensive income for the period:												
Exchange realignment	–	–	–	–	–	–	1,640	–	–	–	–	1,640
Total comprehensive income/(loss) for the period	–	–	–	–	–	–	1,640	–	–	–	(9,638)	(7,998)
Exercise of share options	3	239	–	–	–	(324)	–	–	–	–	–	(82)
Equity-settled share-based payment arrangements	–	–	–	–	–	2,981	–	–	–	–	–	2,981
Transfer of reserve upon the forfeiture or expiry of share option and restricted share	–	–	–	–	–	(1,494)	–	–	–	–	1,494	–
Employee share award scheme — release of award shares	–	–	408	–	–	(408)	–	–	–	–	–	–
As at 30 June 2012	4,204	185,198	(1,408)	29,135	10,522	21,149	3,772	10,833	21,399	4,422	246,453	535,679

	Attributable to owners of the Company												Non–controlling interests	Total equity
	Issued capital	Share premium account	Shares held under share award scheme	Merger reserve	Surplus contributions	Employee share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Total		
	(Unaudited)	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*	*(Unaudited)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	4,095	183,661	(280)	29,135	10,522	14,550	2,662	10,833	18,753	4,422	242,339	520,692	826	521,518
Profit for the period	–	–	–	–	–	–	–	–	–	–	9,323	9,323	228	9,551
Other comprehensive loss for the period:														
Exchange realignment	–	–	–	–	–	–	(73)	–	–	–	–	(73)	–	(73)
Total comprehensive Income/(loss) for the period	–	–	–	–	–	–	(73)	–	–	–	9,323	9,250	228	9,478
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	(1,054)	(1,054)
Exercise of share options	7	1,275	–	–	–	(886)	–	–	–	–	–	396	–	396
Issuance of new shares	76	–	(76)	–	–	–	–	–	–	–	–	–	–	–
Equity-settled share-based payment arrangements	–	–	–	–	–	4,404	–	–	–	–	–	4,404	–	4,404
Transfer of reserve upon the forfeiture or expiry of share option and restricted share	–	–	–	–	–	(1,366)	–	–	–	–	1,366	–	–	–
Employee share award scheme – shares purchased for share award scheme	–	–	(1,457)	–	–	–	–	–	–	–	–	(1,457)	–	(1,457)
– release of award shares	–	–	1,377	–	–	(1,377)	–	–	–	–	–	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	–	1,135	–	(1,135)	–	–	–
As at 30 June 2011	4,178	184,936	(436)	29,135	10,522	15,325	2,589	10,833	19,888	4,422	251,893	533,285	–	533,285

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(25,811)	(6,572)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(118,243)	(1,772)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	26,640	(1,061)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(117,414)	(9,405)
Cash and cash equivalents at beginning of period	360,596	392,540
Effect of foreign exchange rate changes, net	1,640	(73)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	244,822	383,062
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	228,872	292,180
Time deposits with original maturity of less than three months when acquired	15,950	90,882
	244,822	383,062

Notes to Condensed Consolidated Interim Financial Statements

1. Basis of Preparation and Accounting Policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2011, except in relation to the following new and revised International Financial Reporting Standards, ("IFRSs", which also include IASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The adoption of the above new and revised IFRSs has had no significant financial effect on the interim financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. 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 People's Republic of China (the "PRC"), and no non-current assets of the Group are located outside the PRC.

3. 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:

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Revenue		
Ringtone services	15,382	28,136
Ringback tone services	108,070	135,736
Other music related services	2,169	5,947
Non-music related services	58,458	79,357
	184,079	249,176
Less: Business tax	(3,741)	(5,628)
Net revenue	180,338	243,548
Other income and gains, net		
Interest income	4,321	3,573
Fair value gain/(loss) on investments at fair value through profit and loss	70	(327)
Gain on disposal of investments at fair value through profit or loss	–	534
Reversal of bad debts provision	–	3,443
Gain on disposal of subsidiaries	–	794
Foreign exchange differences, net	71	–
Others	18	660
	4,480	8,677

4. Profit/(Loss) Before Tax

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

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Depreciation	745	1,093
Amortisation of intangible assets	4,189	1,563
Amortisation of prepaid land lease payments	293	293

5. Income Tax Expense

An analysis of income tax charges for the six months ended 30 June 2012 and 2011 is shown as follows:

	For the six months ended 30 June	
	2012	**2011**
	(Unaudited)	*(Unaudited)*
	RMB'000	*RMB'000*
Group		
Current – PRC		
Charge for the period	174	2,215
Underprovision in the prior year	483	–
Deferred	163	169
Total tax charge for the period	820	2,384

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 six months ended 30 June 2012 and 2011, respectively.

The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing tax rates in the jurisdictions in which the subsidiaries operate.

6. Interim Dividend

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

7. Earnings/(Loss) Per Share Attributable to Equity Holders of the Company

The calculation of the basic earning/(loss) per share amount for the six months ended 30 June 2012 is based on the loss for the period attributable to equity holders of the Company of RMB9,638,000 (six month ended 30 June 2011: profit of RMB9,323,000) and the weighted average number of ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2012 of 466,388,783 (2011: 469,431,607).

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2012 in respect of a dilution as the impact of the share options outstanding and the awarded shares had an anti-dilutive effect on the basic loss per share amount presented.

The calculation of diluted earnings per share for the six months ended 30 June 2011 is based on the profit for the period attributable to equity holders of the Company of RMB9,323,000 as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the 469,431,607 ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2011, as used in the basic earnings per share calculation, and the weighted average of 2,192,126 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.

8. Property, Plant and Equipment

During the period, the Group acquired property, plant and equipment of RMB12,841,000 (2011: RMB7,231,000).

9. Investment in Associates

During the period, the Group acquired 42.69% interest in Duomi Music Holding Ltd. (“Duomi Music”) for a total cash consideration of RMB19,000,000. Duomi Music is a limited liability company incorporated in the Cayman Islands. Duomi Music and its subsidiaries are principally engaged in the provision of ancillary and related services in relation to mobile internet, especially the research and development of music platforms and operations.

In the prior period, the Group acquired 19.34% interest in Shenzhen Ningmenghai Technology Co., Ltd. (“Ningmenghai”) for a total cash consideration of RMB5,300,000. Ningmenghai is a company incorporated in the PRC on 26 November 2010, and operated as an internet social network service provider.

10. Accounts Receivable

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:

	30 June 2012	31 December 2011
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Neither past due nor impaired:		
Within 1 month	17,283	20,401
1 to 2 months	15,598	16,262
2 to 3 months	14,075	11,056
3 to 4 months	6,395	2,460
Past due but not impaired:		
4 to 6 months	9,725	1,435
Over 6 months	4,122	3,444
	67,198	55,058

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to the Group within a period of 30 to 120 days.

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

	30 June 2012	31 December 2011
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
At the beginning of period/year	2,399	5,216
Impairment losses recognised	–	776
Reversal of bad debts provision	–	(3,593)
At the end of period/year	2,399	2,399

The individually impaired accounts receivable related to customers that were in default and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

11. 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:

	30 June 2012 *(Unaudited)* *RMB'000*	31 December 2011 *(Audited)* *RMB'000*
Within 1 month	5,395	5,160
1 to 3 months	8,682	10,178
4 to 6 months	2,431	3,785
Over 6 months	11,494	7,360
	28,002	26,483

12. Share Capital

Shares

	30 June 2012 *(Unaudited)* *RMB'000*	31 December 2011 *(Audited)* *RMB'000*
Authorised:		
3,000,000,000 (2011: 3,000,000,000) ordinary shares of HK$0.01 each (2011: HK$0.01 each)	26,513	26,513
Issued and fully paid:		
476,282,376 (2011: 475,976,496) ordinary shares of HK$0.01 each	4,204	4,201

A summary of the transactions during the six months ended 30 June 2012 in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares *(Unaudited)*	Nominal value of ordinary shares *(Unaudited)* *HK$'000*	Share premium account *(Unaudited)* *HK$'000*	Equivalent nominal value of ordinary shares *(Unaudited)* *RMB'000*	Equivalent share premium account *(Unaudited)* *RMB'000*	Total *(Unaudited)* *RMB'000*
At 1 January 2012	475,976,496	4,761	209,458	4,201	184,959	189,160
Exercise of share options	305,880	3	294	3	239	242
At 30 June 2012	476,282,376	4,764	209,752	4,204	185,198	189,402

13. Commitments

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

	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
Authorised, but not contracted for:		
Construction in progress	148,000	164,000
Contracted, but not provided for:		
Construction in progress	92,695	83,761
Acquisition of an investment	–	16,311
	240,695	264,072

14. Approval of the Unaudited Interim Accounts

The unaudited Interim Accounts were approved by the Board on 16 August 2012.

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2011

Set out below are the audited consolidated financial statements of the Group for the year ended 31 December 2011 together with the comparative figures for the year ended 31 December 2010 and accompanying notes as extracted from the Company's 2011 annual report:

Consolidated Income Statement
Year ended 31 December 2011

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

Consolidated Statement of Comprehensive Income
Year ended 31 December 2011

	2011	2010
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	12,915	42,318
OTHER COMPREHENSIVE INCOME		
Exchange realignment	(530)	477
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	12,385	42,795
Attributable to:		
Owners of the Company	12,157	42,242
Non-controlling interests	228	553
	12,385	42,795

Consolidated Statement of Financial Position
31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	60,509	14,682
Prepaid land lease payments	14	26,825	27,411
Goodwill	15	1,515	3,710
Prepayment for acquisition of intangible asset	16	–	27,912
Prepayment for acquisition of property, plant and equipment		4,593	–
Intangible assets	17	30,855	13,254
Investment in an associate	19	4,177	–
Deposit for acquisition of an investment	20	8,000	–
Deferred tax assets	28	4,594	5,068
Total non-current assets		141,068	92,037
CURRENT ASSETS			
Accounts receivable	21	55,058	83,389
Prepayments, deposits and other receivables	22	37,839	28,843
Investments at fair value through profit or loss	23	1,880	19,374
Time deposits with original maturity of more than three months		71,911	24,849
Cash and cash equivalents	24	360,596	392,540
Total current assets		527,284	548,995
CURRENT LIABILITIES			
Accounts payable	25	26,483	43,722
Other payables and accruals	26	72,439	53,177
Tax payable		7,201	10,737
Deferred income		6,808	9,975
Total current liabilities		112,931	117,611
NET CURRENT ASSETS		414,353	431,384
TOTAL ASSETS LESS CURRENT LIABILITIES		555,421	523,421

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing	27	13,000	–
Deferred tax liabilities	28	1,643	1,903
Total non-current liabilities		14,643	1,903
Net assets		540,778	521,518
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	4,201	4,095
Reserves	32(a)	536,577	516,597
		540,778	520,692
Non-controlling interests		–	826
Total equity		540,778	521,518

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Attributable to owners of the Company														
	Issued capital	Share premium account	Shares held under share award scheme	Merger reserve	Surplus contributions	Employee share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Proposed final dividend	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 29)	*(note 29)*	*(note 31)*	*(note 32(a))*	*(note 32(a))*				*(note 32(a))*	*(note 32(a))*					
At 1 January 2010	4,045	174,200	–	29,135	10,522	9,227	2,185	9,769	17,049	4,422	201,273	20,140	481,967	811	482,778
Profit for the year	–	–	–	–	–	–	–	–	–	–	41,765	–	41,765	553	42,318
Other comprehensive income for the year:															
Exchange realignment	–	–	–	–	–	–	477	–	–	–	–	–	477	–	477
Total comprehensive income for the year	–	–	–	–	–	–	477	–	–	–	41,765	–	42,242	553	42,795
2009 dividend declared	–	–	–	–	–	–	–	–	–	–	–	(20,140)	(20,140)	–	(20,140)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	1,064	–	–	–	–	1,064	(1,064)	–
Acquisition of a subsidiary (note 34(a))	–	–	–	–	–	–	–	–	–	–	–	–	–	526	526
Exercise of share options	50	9,461	–	–	–	(4,313)	–	–	–	–	–	–	5,198	–	5,198
Equity-settled share-based payment arrangements	–	–	–	–	–	13,069	–	–	–	–	–	–	13,069	–	13,069
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	–	(1,005)	–	–	–	–	1,005	–	–	–	–
Employee share award scheme:															
– shares purchased for share award scheme	–	–	(2,708)	–	–	–	–	–	–	–	–	–	(2,708)	–	(2,708)
– release of award shares	–	–	2,428	–	–	(2,428)	–	–	–	–	–	–	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	–	1,704	–	(1,704)	–	–	–	–
At 31 December 2010	4,095	183,661*	(280) *	29,135*	10,522*	14,550*	2,662*	10,833*	18,753*	4,422*	242,339*	–	520,692	826	521,518

	Attributable to owners of the Company													
	Issued capital RMB'000 (note 29)	Share premium account RMB'000 (note 29)	Shares held under share award scheme RMB'000 (note 31)	Merger reserve RMB'000 (note 32(a))	Surplus contributions RMB'000 (note 32(a))	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note 32(a))	Reserve fund RMB'000 (note 32(a))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2010 and 1 January 2011	4,095	183,661	(280)	29,135	10,522	14,550	2,662	10,833	18,753	4,422	242,339	520,692	826	521,518
Profit for the year	–	–	–	–	–	–	–	–	–	–	12,687	12,687	228	12,915
Other comprehensive income for the year:														
Exchange realignment	–	–	–	–	–	–	(530)	–	–	–	–	(530)	–	(530)
Total comprehensive income for the year	–	–	–	–	–	–	(530)	–	–	–	12,687	12,157	228	12,385
Disposal of a subsidiary (note 33(b))	–	–	–	–	–	–	–	–	(63)	–	63	–	(1,054)	(1,054)
Exercise of share options	7	1,298	–	–	–	(901)	–	–	–	–	–	404	–	404
Issue of shares	99	–	(99)	–	–	–	–	–	–	–	–	–	–	–
Equity-settled share-based payment arrangements	–	–	–	–	–	9,700	–	–	–	–	–	9,700	–	9,700
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	–	(2,217)	–	–	–	–	2,217	–	–	–
Employee share award scheme:														
– shares purchased for share award scheme	–	–	(2,175)	–	–	–	–	–	–	–	–	(2,175)	–	(2,175)
– release of award shares	–	–	738	–	–	(738)	–	–	–	–	–	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	–	2,709	–	(2,709)	–	–	–
At 31 December 2011	4,201	184,959*	(1,816)*	29,135*	10,522*	20,394*	2,132*	10,833*	21,399*	4,422*	254,597*	540,778	–	540,778

* These reserve accounts comprise the consolidated reserves of RMB536,577,000 (2010: RMB516,597,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows
Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		18,156	47,433
Adjustments for:			
Depreciation	7	1,860	2,399
Amortisation of prepaid land lease payments	7	586	586
Amortisation of intangible assets	7	5,062	2,556
Gain on disposal of subsidiaries	6	(794)	–
Gain on disposal of investments at fair value through profit or loss	6	(235)	–
Fair value loss on investments at fair value through profit or loss	7	393	827
Interest income	6	(10,516)	(13,401)
Accounts receivable written off as uncollectible	7	–	808
Share of loss of an associate		1,123	–
Impairment of accounts receivable	7	776	5,216
Impairment of other receivables	7	2,666	–
Write back of impairment of accounts receivable	7	(3,593)	–
Write-off of intangible assets	7	–	3,312
Equity-settled share option expense	7	3,798	8,100
Equity-settled share award expense	7	5,902	4,969
		25,184	62,805
Decrease in accounts receivable		29,280	33,168
Increase in prepayments, deposits and other receivables		(13,911)	(404)
Decrease in accounts payable		(18,282)	(10,931)
Increase in other payables and accruals		13,039	9,641
Increase/(decrease) in deferred income		(3,167)	8,775
Cash generated from operations		32,143	103,054
Tax paid		(8,290)	(17,231)
Net cash flows from operating activities		23,853	85,823
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	34	–	(6,971)
Disposal of subsidiaries	33	878	–
Purchases of items of property, plant and equipment		(34,491)	(11,568)
Proceeds from disposal of items of property, plant and equipment		966	912

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES (continued)			
Purchases of intangible assets	17	(2,563)	(877)
Decrease/(increase) in prepayment for acquisition of intangible asset		5,817	(27,912)
Purchase of investments at fair value through profit or loss		–	(16,244)
Proceeds from disposal of investments at fair value through profit or loss		17,336	41,177
Deposit paid for acquisition of an investment		(8,000)	–
Purchase of shareholding in an associate		(5,300)	–
Interest received		10,516	13,401
Increase in prepayments for acquisition of property, plant and equipment		(4,593)	–
Increase in short term time deposits with original maturity of more than three months		(47,062)	(1,829)
Net cash flows used in investing activities		(66,496)	(9,911)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		404	5,198
Purchase of award shares		(2,175)	(2,708)
New bank loan		13,000	–
Dividend paid		–	(20,140)
Net cash flows from/(used in) financing activities		11,229	(17,650)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(31,414)	58,262
Cash and cash equivalents at beginning of year		392,540	333,801
Effect of foreign exchange rate changes, net		(530)	477
CASH AND CASH EQUIVALENTS AT END OF YEAR		360,596	392,540
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	110,390	187,621
Time deposits with original maturity of less than three months when acquired		250,206	204,919
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		360,596	392,540

Statement of Financial Position
31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	*18*	97,855	88,525
Total non-current assets		97,855	88,525
CURRENT ASSETS			
Other receivables		–	34
Amounts due from subsidiaries	*18*	107,768	29,376
Cash and cash equivalents	*24*	16,138	101,569
Total current assets		123,906	130,979
CURRENT LIABILITIES			
Other payables and accruals		758	430
Total current liabilities		758	430
NET CURRENT ASSETS		123,148	130,549
Net assets		221,003	219,074
EQUITY			
Issued capital	*29*	4,201	4,095
Reserves	*32(b)*	216,802	214,979
Total equity		221,003	219,074

Notes to Financial Statements

31 December 2011

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 losses 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.

3.1 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 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	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 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. The related party transactions, including the related comparative information, have been included in note 39 to the consolidated financial statements.

(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.

3.2 Issued but not yet Effective International Financial Reporting Standards

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

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [4]
IFRS 9	*Financial Instruments* [6]
IFRS 10	*Consolidated Financial Statements* [4]
IFRS 11	*Joint Arrangements* [4]
IFRS 12	*Disclosure of Interests in Other Entities* [4]
IFRS 13	*Fair Value Measurement* [4]
IAS 1 Amendments	Amendments to IAS1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [2]
IAS 19 (2011)	*Employee Benefits* [4]
IAS 27 (2011)	*Separate Financial Statements* [4]
IAS 28 (2011)	*Investments in Associates and Joint Ventures* [4]
IAS 32 Amendments	*Amendments to IAS 32 Financial Instruments: Presentation-Offsetting Financial Assets and Financial Liabilities* [5]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine* [4]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2012
[3] Effective for annual periods beginning on or after 1 July 2012
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2014
[6] Effective for annual periods beginning on or after 1 January 2015

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 7 Amendments introduce more extensive quantitative and qualitative disclosure requirements regarding transfer transactions of financial assets (e.g. securitisations), including information for understanding the possible effects of any risks that may remain with the entity that transferred the assets. The Group expects to adopt the amendments from 1 January 2012 and comparative disclosures are not required for any period beginning before that date.

IFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013.

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

In November 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2015.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and IFRIC-Int 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in IFRIC-Int 12.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and IFRIC-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, and the consequential amendments to IAS 27 and IAS 28 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

IAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in IFRIC-Int 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group expects to adopt IAS 12 Amendments from 1 January 2012.

IAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt IAS 19 (2011) from 1 January 2013.

IAS 32 Amendments clarify the requirements for offsetting financial instruments. The amendments address inconsistencies in current practice when applying the offsetting criteria and clarify the meaning of "currently has a legally enforceable right of set-off" and some gross settlement system may be considered equivalents to net settlements. The Group expects to adopt the amendments from 1 January 2014.

3.3 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Business combinations and goodwill

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an assets or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

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

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

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

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets

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

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

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

Related parties

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

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

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

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

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life as follows:

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

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

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

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

Intangible assets (other than goodwill)

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

Trademarks, licences and softwares

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

Music copyrights

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

Research and development costs

All research costs are charged to the income statement as incurred.

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

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

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

Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, and loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded not at fair value through profit or loss.

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

The Group's financial assets include cash and bank balances, trade and other receivables, quoted and unquoted financial instruments.

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised separately in the income statement.

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

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

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

Loans and receivables

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include accounts payable and other payables.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

Loans and borrowings

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

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Cash and cash equivalents

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

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

Treasury shares

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

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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

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

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

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

Government grants

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

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

Borrowing costs

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

Foreign currencies

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

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

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

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

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

Revenue recognition

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

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

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

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

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

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

Employee benefits

Employee leave entitlements

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

Pension obligations

The Group contributes on a monthly basis to various defined contribution benefit plans organised by the relevant government authorities. The Group's liability in respect of these funds is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred. Assets of the plans are held by government authorities and are separated from those of the Group.

Equity compensation benefits

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

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

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

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

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

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

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

Shares held for share award scheme

As disclosed in note 31 to the financial statement, the Group has set up a trust for the share award schemes, where the trust purchases shares issued by the Group, the consideration paid by the Company, including any directly attributable incremental costs, is presented as "Shares held for the Share Award Scheme" and deducted from the Group's equity.

Borrowing costs

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

Dividends

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

4. Significant Accounting Judgements and Estimates

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(i) Judgements

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

Accounting for companies governed under contractual arrangements as subsidiaries

As further detailed in note 18(a) below, A8 Music Group Limited does not have equity ownership in Shenzhen Huadong Feitian Network Development Co., Ltd., Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd., Fuzhou Zhuolong Tianxiu Information Technology Ltd., Jiangsu Guangshi Science and Trade Development Limited, Shenzhen Kuaitonglian Technology Co., Ltd., Beijing Zhangzhong Didai Information Technology Ltd. and Beijing Bulaqi Music Cultural Broadcasting Co., Ltd. (collectively the "Group of Subsidiaries"). Nevertheless, under the contractual agreements entered into between the Group of Subsidiaries, their respective registered owners and Cash River Information Technology (Shenzhen) Co., Ltd. ("Cash River") or Beijing Huanyu Xincheng Software Development Co., Ltd. ("Huanyu Xincheng"), management has determined that the Group controls the financial and operating policies of the Group of Subsidiaries so as to obtain benefits from their activities. As such, the Group of Subsidiaries and their respective subsidiaries are accounted for as subsidiaries of the Group for accounting purposes.

(ii) Estimation uncertainty

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

(a) Recognition of telecommunications value-added services

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

(b) Recognition of share-based compensation expenses under share option scheme and share award scheme

As detailed in notes 30 and 31 below, the Company has granted shares options and shares to certain employees of the Group in respect of their services to the Group under share option scheme and share award scheme. The directors have used an external valuer who has applied the Black-Scholes-Merton Option Pricing Model and Black-Scholes Put Formula to determine the fair value of the options and restricted shares granted, respectively, which has been expensed over the vesting period. Significant estimation of the parameters in applying the Black-Scholes-Merton Option Pricing Model and Black-Scholes Put Formula, such as the risk-free interest rates, dividend yield and expected/historical volatility, is required to be made.

The fair value of options granted during the year ended 31 December 2011, which are recognised as share-based compensation, determined using the Black-Scholes-Merton Option Pricing Model was approximately RMB9,548,000 (2010: Nil).

The fair value of restricted shares granted during the year ended 31 December 2011, which are recognised as share-based compensation, determined using the Black-Scholes Put Formula was approximately RMB14,294,000 (2010: RMB4,969,000).

5. 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.

6. 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	**2010**
	RMB'000	*RMB'000*
Revenue		
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
	483,587	681,839
Less: Business tax	(11,546)	(11,493)
Net revenue	472,041	670,346
Other income and gains, net		
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	–
	11,637	13,758

7. Profit Before Tax

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

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

8. Directors' Remuneration and The Five Highest Paid Individuals

(a) Directors' remuneration

	2011 *RMB'000*	2010 *RMB'000*
Fees	208	220
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	2,303	3,369
Share-based payment	1,012	6,475
Pension scheme contributions	78	66
	3,393	9,910
	3,601	10,130

During the year, a director was granted share options, in respect of his service to the Group, under the share option scheme of the Company. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above director's remuneration disclosures.

During the prior years, (i) a director was granted shares in respect of his service to the Group, under the share award scheme of the Company; (ii) certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company and the Join Reach share option scheme; and (iii) a director was awarded shares in Join Reach Limited which holds an indirect interest in the Company in respect of his services to the Group. The fair value of these options and shares, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the prior year is included in the above directors' remuneration disclosures.

Further details are set out in note 30 and note 31 to the financial statements.

(i) Independent non-executive directors

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

2011

	Fees *RMB'000*	Bonuses *RMB'000*	Total remuneration *RMB'000*
Independent non-executive directors:			
Mr. Hui, Harry Chi	42	–	42
Mr. Chan Yiu Kong	124	–	124
Mr. Zeng Liqing	42	–	42
	208	–	208

2010

	Fees	Bonuses	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*
Independent non-executive directors:			
Mr. Hui, Harry Chi	44	–	44
Mr. Chan Yiu Kong	132	–	132
Mr. Zeng Liqing	44	–	44
	220	–	220

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

(ii) Executive directors and non-executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled share option expense	Equity-settled share award expense	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2011						
Executive directors:						
Mr. Liu Xiaosong ("Mr. Liu")	–	1,272	129	–	35	1,436
Mr. Lu Bin	–	949	883	–	42	1,874
Ms. Ho Yip, Betty#	–	82	–	–	1	83
	–	2,303	1,012	–	78	3,393
Non-executive directors:						
Mr. Li Wei	–	–	–	–	–	–
Ms. Ho Yip, Betty*	–	–	–	–	–	–
	–	2,303	1,012	–	78	3,393

Resigned as executive director on 15 January 2011.

* Re-designated as non-executive director with effect from 15 January 2011 and resigned on 1 June 2011.

	Fees	Salaries, bonuses, allowances and benefits in kind	Equity-settled share option expense	Equity-settled share award expense	Pension scheme contributions	Total remuneration
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2010						
Executive directors:						
Mr. Liu Xiaosong	–	1,037	227	–	28	1,292
Ms. Ho Yip, Betty	–	1,677	958	–	10	2,645
Mr. Lin Yizhong#	–	655	321	4,969	28	5,973
	–	3,369	1,506	4,969	66	9,910
Non-executive directors:						
Mr. Li Wei	–	–	–	–	–	–
	–	3,369	1,506	4,969	66	9,910

Resigned on 9 November 2010.

(b) Five highest paid individuals

The five highest paid individuals included two (2010: three) directors, details of whose remuneration are set as above. Details of the remuneration of the remaining three (2010: two) non-director, highest paid individuals for the year are as follows:

	2011	2010
	RMB'000	*RMB'000*
Salaries, bonuses, allowances and benefits in kind	1,614	962
Equity-settled share option expense	–	629
Equity-settled share award expense	2,081	–
Pension scheme contributions	126	38
	3,821	1,629

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

	Number of employees	
	2011	**2010**
Nil to RMB1,000,000	2	1
RMB1,000,001 to RMB2,000,000	–	1
RMB2,000,001 to RMB3,000,000	1	–
	3	2

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

9. 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	**2010**
	RMB'000	*RMB'000*
Group		
Current – PRC		
Charge for the year	3,452	9,138
Underprovision in prior year	1,575	–
Deferred *(note 28)*	214	(4,023)
Total tax charge for the year	5,241	5,115

The 5th Session of the 10th National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New Corporate Income Tax Law") on 16 March 2007 and the State Council has announced the Detailed Implementation Regulations (the "DIR") on 6 December 2007, which became effective from 1 January 2008. According to the New Corporate Income Tax Law, the income tax rates for both domestic and foreign investment enterprises are unified at 25% effective from 1 January 2008. However, for enterprises which were established before the publication of the New Corporate Income Tax Law and were entitled to preferential treatments of reduced corporate income tax rates granted by the relevant tax authorities, the new corporate income tax rate may be gradually increased to 25% within five years after the effective date of the New Corporate Income Tax Law. For regions that enjoy a reduced corporate income tax rate at 15%, the corporate income tax rate will gradually increase to 18% for 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012 according to grandfathering rules stipulated in the DIR and related circular. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

Cash River, was established and operated at the Shenzhen Special Economic Zone of the PRC. Accordingly, it was subject to income tax at a rate of 24% for the year ended 31 December 2011.

Beijing Aiyue Cultural Broadcasting Co., Ltd. ("Aiyue"), Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. ("Yuesheng Feiyang"), Shenzhen Huadong Feitian Technology Co., Ltd. ("Huadong Feitian") and Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian") were subject to a preferential tax rate of 15% as each of them was recognised as a high technology enterprise for the year ended 31 December 2011.

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

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

	2011					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit/(loss) before tax	(3,568)		21,724		18,156	
Tax at the statutory tax rate	(589)	16.5	5,431	25.0	4,842	26.7
Preferential tax rates	–	–	(3,849)	(17.7)	(3,849)	(21.2)
Super-deduction of research and development expenditure	–	–	(912)	(4.2)	(912)	(5.0)
Adjustments in respect of current tax of previous periods	–	–	1,575	7.2	1,575	8.7
Income not subject to tax	(250)	7.0	(15)	(0.1)	(265)	(1.5)
Expenses not deductible for tax	839	(23.5)	2,886	13.3	3,725	20.5
Tax losses utilised from previous periods	–	–	(962)	(4.4)	(962)	(5.3)
Tax losses not recognised	–	–	1,087	5.0	1,087	6.0
Tax charge at the Group's effective rate	–	–	5,241	24.1	5,241	28.9

	2010					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit/(loss) before tax	(602)		48,035		47,433	
Tax at the statutory tax rate	(99)	16.5	12,008	25.0	11,909	25.1
Preferential tax rates	–	–	(9,656)	(20.1)	(9,656)	(20.3)
Super-deduction of research and development expenditure	–	–	(600)	(1.2)	(600)	(1.3)
Income not subject to tax	(1,067)	177.2	(26)	(0.1)	(1,093)	(2.3)
Expenses not deductible for tax	1,166	(193.7)	1,145	2.4	2,311	4.9
Tax losses not recognised	–	–	2,244	4.6	2,244	4.7
Tax charge at the Group's effective rate	–	–	5,115	10.6	5,115	10.8

10. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the year ended 31 December 2011 includes a loss of RMB4,002,000 (2010: RMB39,000) which has been dealt with in the financial statements of the Company (note 32(b)).

11. Dividends

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

12. 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 465,452,000 (2010: 460,192,000).

The calculation of the diluted 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) as used in the basic earnings per share calculation.

The weighted average number of ordinary shares used in the calculation is the 465,452,000 (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.

13. Property, Plant and Equipment

Group

	Computer equipment *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvements *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2011						
At 31 December 2010 and at 1 January 2011:						
Cost	12,576	1,983	2,094	4,029	8,251	28,933
Accumulated depreciation	(6,692)	(1,776)	(1,981)	(3,802)	–	(14,251)
Net carrying amount	5,884	207	113	227	8,251	14,682
At 1 January 2011, net of accumulated depreciation	5,884	207	113	227	8,251	14,682
Additions	1,064	71	–	9	47,577	48,721
Disposal of subsidiaries *(note 33)*	(23)	(21)	–	(24)	–	(68)
Disposals	(843)	(106)	–	(6)	(11)	(966)
Depreciation provided during the year	(1,602)	(151)	(107)	–	–	(1,860)
At 31 December 2011, net of accumulated depreciation	4,480	–	6	206	55,817	60,509
At 31 December 2011:						
Cost	11,520	1,452	2,094	4,010	55,817	74,893
Accumulated depreciation	(7,040)	(1,452)	(2,088)	(3,804)	–	(14,384)
Net carrying amount	4,480	–	6	206	55,817	60,509

	Computer equipment *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvements *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2010						
At 31 December 2009 and at 1 January 2010:						
Cost	12,167	1,962	2,094	3,811	–	20,034
Accumulated depreciation	(6,596)	(1,714)	(1,725)	(3,620)	–	(13,655)
Net carrying amount	5,571	248	369	191	–	6,379
At 1 January 2010, net of accumulated depreciation	5,571	248	369	191	–	6,379
Additions	2,801	297	–	219	8,251	11,568
Acquisition of subsidiaries (note 34)	–	46	–	–	–	46
Disposals	(795)	(117)	–	–	–	(912)
Depreciation provided during the year	(1,693)	(267)	(256)	(183)	–	(2,399)
At 31 December 2010, net of accumulated depreciation	5,884	207	113	227	8,251	14,682
At 31 December 2010:						
Cost	12,576	1,983	2,094	4,029	8,251	28,933
Accumulated depreciation	(6,692)	(1,776)	(1,981)	(3,802)	–	(14,251)
Net carrying amount	5,884	207	113	227	8,251	14,682

14. Prepaid Land Lease Payments

	Group	
	2011	**2010**
	RMB'000	*RMB'000*
Carrying amount at 1 January	27,996	28,582
Recognised during the year	(586)	(586)
Carrying amount at 31 December	27,410	27,996
Current portion included in prepayments, deposits and other receivables *(note 22)*	(585)	(585)
Non-current portion	26,825	27,411

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

As at 31 December 2011, the entire leasehold land was pledged as security for the bank loan granted to the Group (2010: Nil) (note 27(a)).

15. Goodwill

Group

	RMB'000
Cost at 1 January 2010, net of accumulated impairment	–
Acquisition of subsidiaries *(note 34)*	3,710
Cost and net carrying amount at 31 December 2010	3,710
Cost at 1 January 2011, net of accumulated impairment	3,710
Disposal of a subsidiary *(note 33)*	(2,195)
Cost and net carrying amount at 31 December 2011	1,515

16. 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 for 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.

17. Intangible Assets

Group

	Deferred development costs *RMB'000*	Trademarks licenses and software *RMB'000*	Music copyrights *RMB'000*	Total *RMB'000*
31 December 2011				
Cost at 1 January 2011, net of accumulated amortisation	–	13,254	–	13,254
Disposal of subsidiaries *(note 33)*	–	(1,995)	–	(1,995)
Additions	–	625	1,938	2,563
Transfer from prepayment for acquisition of intangible asset *(note 16)*	–	22,095	–	22,095
Amortisation provided during the year	–	(4,864)	(198)	(5,062)
At 31 December 2011	–	29,115	1,740	30,855
At 31 December 2011:				
Cost	3,312	39,778	1,938	45,028
Accumulated amortisation	(3,312)	(10,663)	(198)	(14,173)
Net carrying amount	–	29,115	1,740	30,855
31 December 2010				
Cost at 1 January 2010, net of accumulated amortisation	3,312	10,340	–	13,652
Acquisition of subsidiaries *(note 34)*	–	4,593	–	4,593
Additions	–	877	–	877
Write-off	(3,312)	–	–	(3,312)
Amortisation provided during the year	–	(2,556)	–	(2,556)
At 31 December 2010	–	13,254	–	13,254
At 31 December 2010:				
Cost	3,312	17,058	–	20,370
Accumulated amortisation	(3,312)	(3,804)	–	(7,116)
Net carrying amount	–	13,254	–	13,254

18. Investments in Subsidiaries

	Company 2011	2010
	RMB'000	*RMB'000*
Unlisted shares, at cost	74,333	74,333
Capital contribution in respect of share based compensation	23,522	14,192
	97,855	88,525

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

(a) Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company Direct	Indirect	Principal activities
A8 Music Group Limited ("A8 Music") *(note (ii))*	British Virgin Islands	Ordinary shares US$64,500 Preferred shares US$9,300	100	–	Investment holding
佳仕域信息科技(深圳)有限公司 Cash River Information Technology (Shenzhen) Co., Ltd. *(note (ii))** #	PRC	HK$1,000,000 Registered capital	–	100	Development of computer software and provision of technical and management consultancy services
深圳市華動飛天網絡技術開發有限公司 Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian")*(notes (i) and (ii))**@	PRC	RMB28,680,000 Registered capital	–	100	Provision of telecommunications instant messaging and value-added services
深圳市雲海情天文化傳播有限公司 Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. *(notes (i) and (ii))* @	PRC	RMB10,000,000 Registered capital	–	100	Development of computer software and provision of technical and management consultancy services
深圳市快通聯科技有限公司 Shenzhen Kuaitonglian Technology Co., Ltd. *(notes (i) and (ii))** @	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company Direct	Indirect	Principal activities
北京創盟音樂文化發展有限公司 Beijing Chuangmeng Yinyue Culture Development Co., Ltd. *(notes (i)* and *(ii))* *@	PRC	RMB5,000,000 Registered capital	–	100	Provision of mobile value-added services
北京愛樂空間文化傳播有限公司 Beijing Aiyue Cultural Broadcasting Co., Ltd. *(notes (i)* and *(ii))* *@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京樂聲飛揚音樂文化傳播有限公司 Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. *(notes (i)* and *(ii))* *@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京天籟印象文化傳播有限公司 Beijing Tianlai Cultural Broadcasting Co., Ltd. *(notes (i)* and *(ii))* *@	PRC	RMB20,000,000 Registered capital	–	100	Provision of mobile value-added services
江蘇廣視科貿發展有限公司 Jiangsu Guangshi Science and Trade Development Limited *(notes (i)* and *(ii))* *@	PRC	RMB10,070,000 Registered capital	–	100	Provision of mobile value-added services
福州卓龍天訊信息技術有限公司 Fuzhou Zhuolong Tianxiu Information Technology Ltd. *(notes (i)* and *(ii))* *@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京樂音無限文化傳播有限公司 Beijing Yueyin Wuxian Cultural Broadcasting Co., Ltd. *(notes (i)* and *(ii))* *@	PRC	RMB1,000,000 Registered capital	–	100	Dormant
Total Plus Limited	Hong Kong	HK$97,045 Issued capital	–	100	Investment holding

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company Direct	Indirect	Principal activities
北京布拉琪音樂文化傳媒有限公司 Beijing Bulaqi Music Cultural Broadcasting Co., Ltd. *(notes (i)* and *(ii))* *@	PRC	RMB1,000,000 Registered capital	–	100	Holding of music patent and licenses
北京掌中地帶信息科技有限公司 Beijing Zhangzhong Didai Information Technology Ltd. *(notes (i)* and *(ii))* *@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
北京環宇信誠軟件開發有限公司 Beijing Huanyu Xincheng Software Development Co., Ltd. *(note (ii))* *@	PRC	RMB10,000,000 Registered capital	–	100	Dormant
深圳市掌翼天下有限公司 Shenzhen Zhangyi Tianxia Ltd. Development Co., Ltd. *(notes (i)* and *(ii))* *@	PRC	RMB3,000,000 Registered capital	–	100	Dormant
Phoenix Success Limited *(note (ii))*	Hong Kong	HK$1 Issued capital	100	–	Dormant

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

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

@ Registered as domestic limited liability companies under PRC law.

Notes:

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

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

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

(b) Controlled special purpose entity

The Company has set up a trust, A8 Digital Music share award trust (the "Trust"), for the purpose of administering the share award scheme established by the Company (note 31). In accordance with SIC Interpretation 12 "Consolidation-Special Purpose Entities", the Company is required to consolidate the Trust as the Company has the power to govern the financial and operating policies of the Trust and can derive benefits from the contributions of employees who have been awarded the shares through their employment with the Group.

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

19. Investment in an Associate

	Group 2011 *RMB'000*	2010 *RMB'000*
Share of net assets	1,535	–
Goodwill on acquisition	2,642	–
	4,177	–

Particulars of the associate are as follows:

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

As at 31 December 2011, the Group owned a 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:

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

20. 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 a 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 the research and development of music platforms and operations. The acquisition has not been completed up to the date of approval of these financial statements.

21. Accounts Receivable

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

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:

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

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

	Group	
	2011	**2010**
	RMB'000	*RMB'000*
At 1 January	5,216	–
Impairment losses recognised *(note 7)*	776	5,216
Write-back of impairment *(note 7)*	(3,593)	–
At 31 December	2,399	5,216

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

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

22. Prepayments, Deposits and Other Receivables

	Group	
	2011	**2010**
	RMB'000	*RMB'000*
Prepayments	10,712	14,871
Prepaid land lease payments *(note 14)*	585	585
Deposits and other receivables	29,208	13,387
Impairment	(2,666)	–
	37,839	28,843

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

Movements in the provision for other receivables are as follows:

	Group	
	2011	**2010**
	RMB'000	*RMB'000*
At 1 January	–	1,387
Impairment losses recognised *(note 7)*	2,666	–
Amount written off as uncollectible	–	(1,387)
At 31 December	2,666	–

Included in the above provision for other receivables is a provision for individually impaired receivables of RMB2,666,000 (2010: Nil) with a gross carrying amount of RMB3,381,000 (2010: Nil). The individually impaired receivables relate to a portion of the receivables that is not expected to be recovered.

Included in the Group's other receivables is a receivable of RMB11,000,000 due from 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 in relation to the proposed acquisition of equity interest in Duomi Music as further detailed in note 20 to the financial statements.

23. Investments at Fair Value Through Profit or Loss

	Group	
	2011	**2010**
	RMB'000	*RMB'000*
Listed equity investments in Mainland China, at fair value	1,880	4,374
Unlisted investments, at fair value	–	15,000
	1,880	19,374

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

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

24. Cash and Cash Equivalents

	Group		Company	
	2011	**2010**	**2011**	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	110,390	187,621	16,138	19,729
Short term deposits	250,206	204,919	–	81,840
Cash and cash equivalents	360,596	392,540	16,138	101,569
Denominated in RMB	331,456	290,106	4	4
Denominated in other currencies	29,140	102,434	16,134	101,565
Cash and cash equivalents	360,596	392,540	16,138	101,569

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

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

25. Accounts Payable

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

	Group	
	2011	**2010**
	RMB'000	*RMB'000*
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
	26,483	43,722

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

26. Other Payables and Accruals

	Group 2011	Group 2010
	RMB'000	*RMB'000*
Other payables	25,528	11,828
Accruals	46,911	41,349
	72,439	53,177

27. Interest-Bearing Bank Borrowing

Group

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

	Group 2011	Group 2010
	RMB'000	*RMB'000*
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) (note 14).

(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.

28. Deferred Tax

The movements in deferred tax liabilities and assets during the year are as follows:

Group

	Deductible temporary differences	Transfer of profit derived from contractual agreements	Fair value adjustments arising from acquisition of subsidiaries	Fair value gain on investments at fair value through profit or loss	Development costs	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	1,803	(813)	(1,173)	(177)	(498)	(858)
Deferred tax credited/(charged) to the income statement during the year *(note 9)*	3,265	–	260	–	498	4,023
At 31 December 2010 and 1 January 2011	5,068	(813)	(913)	(177)	–	3,165
Deferred tax credited/(charged) to the income statement during the year *(note 9)*	(474)	–	260	–	–	(214)
At 31 December 2011	4,594	(813)	(653)	(177)	–	2,951

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2011	2010
	RMB'000	*RMB'000*
Net deferred tax assets recognised in the consolidated statement of financial position	4,594	5,068
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,643)	(1,903)
	2,951	3,165

The Group has tax losses arising in Mainland China of RMB5,722,000 (2010: RMB14,300,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately RMB276,188,000 at 31 December 2011 (2010: RMB254,897,000).

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

29. Share Capital

Shares

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

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**	**Share premium account**	**Equivalent nominal value of ordinary shares**	**Equivalent share premium account**	**Total**
		HK$'000	*HK$'000*	*RMB'000*	*RMB'000*	*RMB'000*
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	475,976,496	4,761	209,458	4,201	184,959	189,160

During the year, a total of 756,960 share options under the 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 the share option scheme were exercised at exercise prices ranging from HK$1.16 to HK$3.20 per share for a total cash consideration, before expenses, of HK$474,000 (RMB404,000).

During the prior year, a total of 1,812,500 share options under the 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 3,840,080 share options under the share option scheme were exercised at exercise prices ranging from HK$1.18 to HK$3.20 per share for a total cash consideration, before expenses, of HK$11,029,000 (RMB9,607,000).

30. Share Option Schemes

(a) Pre-IPO share option scheme

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

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

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

	2011		2010	
	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	**Number of options**
	HK$ per share	*'000*	*HK$ per share*	*'000*
At 1 January	0.58	1,140	0.60	3,535
Forfeited during the year	0.74	(43)	0.71	(582)
Exercised during the year	0.54	(757)	0.57	(1,813)
At 31 December	0.65	340	0.58	1,140

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.67 per share (2010: HK$3.13).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011

Number of options	**Exercise price***	**Exercise period**
'000	*HK$ per share*	
135	0.52	1-2-2009 to 21-5-2012
205	0.74	1-2-2009 to 21-5-2012
340		

2010

Number of options	Exercise price*	Exercise period
'000	*HK$ per share*	
35	0.16	1-2-2009 to 21-5-2012
63	0.17	1-2-2009 to 21-5-2012
67	0.29	1-2-2009 to 21-5-2012
152	0.39	1-2-2009 to 21-5-2012
135	0.52	1-2-2009 to 21-5-2012
103	0.65	1-2-2009 to 21-5-2012
585	0.74	1-2-2009 to 21-5-2012
1,140		

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

The fair value of the share options granted in 2008 was RMB20,210,000 (RMB1.1 each). The Group recognised a share option expense of RMB38,000 (2010: RMB753,000) during the year ended 31 December 2011 in respect of share options granted in the prior years.

(b) Share option scheme

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

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

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

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

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

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

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

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

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

	2011		2010	
	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	**Number of options**
	HK$ per share	*'000*	*HK$ per share*	*'000*
At 1 January	2.86	12,740	2.90	22,720
Granted during the year	2.28	11,000	–	–
Cancelled during the year	3.18	(5,762)	–	–
Forfeiture during the year	2.91	(6,091)	3.17	(6,140)
Exercised during the year	1.16	(54)	2.60	(3,840)
At 31 December	2.15	11,833	2.86	12,740

The weighted average share price of share options exercised during the year at the date of exercise was HK$2.5 (2010: HK$3.17).

On 17 January 2011, the Company granted 2,171,806 award shares to 170 awardees pursuant to the terms of the share award scheme, upon the cancellation on the same day of the specific share options to subscribe for an aggregate of 5,761,675 shares granted to the awardees in 2009 under the share option scheme.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2011

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
2,203	1.184	15-10-2010 to 14-10-2018
1,280	3.168	1-7-2010 to 5-10-2014
108	3.200	24-12-2009 to 24-12-2014
7,042	2.410	25-3-2011 to 25-3-2016
1,200	1.200	18-8-2011 to 18-8-2016
11,833		

2010

Number of options *'000*	**Exercise price*** *HK$ per share*	**Exercise period**
108	1.160	16-10-2009 to 15-10-2018
2,203	1.184	15-10-2010 to 14-10-2018
6,380	3.168	1-7-2010 to 5-10-2014
2,849	3.200	24-12-2009 to 24-12-2014
1,200	3.630	21-9-2010 to 21-9-2014
12,740		

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

The fair value of the share options granted during the year was RMB9,548,000 (RMB0.87 each) (2010: Nil). The Group recognised a share option expense of RMB3,686,000 (2010: RMB6,883,000) during the year ended 31 December 2011 in respect of share options granted in the current and prior years.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	March 2011	**August 2011**
Dividend yield (%)	–	–
Expected volatility (%)	74.22	72.31
Risk-free interest rate (%)	1.797	0.737
Expected life of options (year)	0.49-4.23	0.98-4.45
Weighted average share price (HK$ per share)	2.41	1.2

The expected life of the options is based on management expectation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility, which is based on the volatility computed from comparable companies, reflects the assumption that the volatility of comparable companies is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of options granted was incorporated into the measurement of fair value.

(c) Join Reach share option scheme

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

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

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

The following share options granted to the employees of the Company and its subsidiaries were outstanding under the Join Reach share option scheme during the year:

	2011		2010	
	Weighted average exercise price	**Number of options**	**Weighted average exercise price**	**Number of options**
	HK$ per share	*'000*	*HK$ per share*	*'000*
At 1 January	0.90	2,520	0.75	5,332
Exercised during the year	0.90	(2,520)	0.61	(2,812)
At 31 December	–	–	0.90	2,520

The exercise prices and exercise periods of the share options granted to the employees of the Company and its subsidiaries outstanding as at 31 December 2010 are as follows:

2010

Number of options	**Exercise price***	**Exercise period**
'000	*HK$ per share*	
28	0.16	1-2-2009 to 4-8-2012
2,492	0.91	1-2-2009 to 4-8-2012
2,520		

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

The fair value of the share options granted to the employees at the Company and its subsidiaries in 2008 was RMB3,816,000 (RMB0.72 each). The Group recognised a share option expense of RMB74,000 (2010: RMB464,000) during the year ended 31 December 2011 in respect of share options granted in the prior years.

At the end of the reporting period, the Company had 12,173,166 share options outstanding under the Pre-IPO share option scheme and the share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 12,173,166 additional ordinary shares of the Company and additional share capital of HK$121,730 and share premium of HK$25,642,000 (before issue expenses).

Subsequent to the end of the reporting period, an aggregate of 123,760 share options under the Pre-IPO share option scheme were exercised which result in the issue of 123,760 ordinary shares of the Company and new share capital of HK$1,238 (equivalent to RMB1,006) and share premium of HK$90.345 (equivalent to RMB73,457) (before issue expenses) and an aggregate of 1,176,875 share options under the share option scheme were lapsed.

At the date of approval of these financial statements, the Company had 10,872,531 share options outstanding under the Pre-IPO share option scheme and the share option scheme, which represented approximately 2.28% of the Company's shares in issue as at that date.

31. Share Award Scheme

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

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

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

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

During the year, a total of 11,763,000 (2010: 2,014,000) shares have been awarded to certain employees of the Group for no consideration but subject to certain vesting conditions. A total of 1,740,000 (2010: 2,014,000) shares at a cost of RMB3,044,000 (2010: RMB4,969,000) were vested during the year.

Movement in the number of award shares and their related average fair value is as follows:

	2011		**2010**	
	Average fair value *HK$ per share*	**Number of shares** *'000*	**Average fair value** *HK$ per share*	**Number of shares** *'000*
At 1 January	–	–	–	–
Awarded	1.44	11,763	2.90	2,014
Vested	2.11	(1,740)	2.90	(2,014)
At 31 December		10,023		–

Movement in the number of shares held under share award scheme is as follows:

	2011 Number of shares held ’000	2010 Number of shares held ’000
At 1 January	106	–
Purchased during the year	1,754	1,006
Issued during the year	11,763	–
Released during the year	(2,854)	(900)
At 31 December	10,769	106

The fair value of award shares granted during the year was estimated as at the date of grant, using the Black-Scholes Put Formula, taking into account the terms and conditions upon which the award shares were granted. The following table lists the inputs to the model used:

	January 2011	March 2011	August 2011	2010
Dividend yield (%)	1.81	–	–	1.54
Historical volatility (%)	54.81-58.70	53.83-74.22	51.16-72.31	58.09
Risk-free interest rate (%)	0.199-0.371	0.24-1.47	0.07-0.52	0.13-0.38
Weighted average share price (HK$ per share)	2.76	2.23	1.2	3.25

No other feature of award shares granted was incorporated into the measurement of fair value.

32. Reserves

(a) Group

The amounts of the Group’s reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 41 to 42 of the financial statements.

(i) Merger reserve

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

(ii) Surplus contributions

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

(iii) PRC statutory reserves

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

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

(b) Company

	Share premium account	Shares held under share award scheme	Capital reserve	Exchange fluctuation reserve	Employee share-based compensation reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	178,247	–	8,969	(865)	5,849	3,527	195,727
Total comprehensive income for the year	–	–	–	(212)	–	39	(173)
Equity-settled share-based payment arrangements	–	–	–	–	12,647	–	12,647
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	(1,005)	1,005	–
Employee share award scheme:							
– shares purchased for share award scheme	–	(2,708)	–	–	–	–	(2,708)
– release of award shares	–	2,428	–	–	(2,428)	–	–
Exercise of share options	13,799	–	–	–	(4,313)	–	9,486
At 31 December 2010 and 1 January 2011	192,046*	(280)	8,969*	(1,077)	10,750	4,571*	214,979
Total comprehensive loss for the year	–	–	–	(1,192)	–	(4,002)	(5,194)
Issue of shares	–	(99)	–	–	–	–	(99)
Equity-settled share-based payment arrangements	–	–	–	–	8,350	–	8,350
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	(2,217)	2,217	–
Employee share award scheme:							
– shares purchased for share award scheme	–	(2,175)	–	–	–	–	(2,175)
– release of award shares	–	738	–	–	(738)	–	–
Exercise of share options	1,842	–	–	–	(901)	–	941
At 31 December 2011	193,888*	(1,816)	8,969*	(2,269)	15,244	2,786*	216,802

* These reserve accounts comprise the Company's reserves available for distribution amounting to RMB205,643,000 (2010: RMB205,586,000).

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

33. Disposal of Subsidiaries

(a) On 28 April 2011, the Group disposed of its entire interest in a wholly-owned subsidiary, Beijing Haide Zhongshi Cultural Broadcasting Co., Ltd. ("Haide"), for a cash consideration of RMB100,000. Haide is engaged in the provision of providing and arranging cultural and art activities. The disposal was made as the Group would concentrate on the further development of music and music related business.

	Note	*RMB'000*
Net assets disposed of:		
Property, plant and equipment	*13*	21
Accounts receivable		172
Prepayments, deposits and other receivables		2,017
Cash and bank balances		3,775
Accounts payable		(37)
Other payables and accruals		(6,434)
Total identifiable net assets at fair value		(486)
Gain on disposal of a subsidiary		586
Satisfied by cash		100

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

	RMB'000
Cash consideration received	100
Cash and bank balances disposed of	(3,775)
Net outflow of cash and cash equivalents included in cash flows in respect of the disposal of a subsidiary	(3,675)

(b) On 28 April 2011, the Group disposed of its entire interest in an 80%-owned subsidiary, Beijing Zhengshangyou Cultural Broadcasting Co., Ltd. ("Zhengshangyou"), for a cash consideration of RMB4,700,000. Zhengshangyou is engaged in the provision of mobile value-added services. The disposal was made as the Group would concentrate on the further development of music and music related business.

	Notes	*RMB'000*
Net assets disposed of:		
Property, plant and equipment	*13*	47
Intangible assets	*17*	1,995
Accounts receivable		1,696
Prepayments, deposits and other receivables		232
Cash and bank balances		147
Accounts payable		1,080
Tax payable		(273)
Other payables and accruals		(1,573)
Non-controlling interests		(1,054)
		2,297
Goodwill released	*15*	2,195
Gain on disposal of a subsidiary		208
Satisfied by cash		4,700

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

	RMB'000
Cash consideration received	4,700
Cash and bank balances disposed of	(147)
Net inflow of cash and cash equivalents included in cash flows in respect of the disposal of a subsidiary	4,553

34. Business Combination

(a) On 19 August 2010, the Group acquired an 80% interest in Beijing Zhengshangyou Cultural Broadcasting Co., Ltd. ("Zhengshangyou"). Zhengshangyou is engaged in the provision of mobile value-added services. The acquisition was made as part of the Group's strategy to expand its market share of the e-reading sector in the mobile telecommunication industry. The purchase consideration for the acquisition was in the form of cash, with RMB1,505,000 and RMB2,295,000, paid on 30 August 2010 and 28 October 2010, respectively. The remaining RMB500,000 was paid in May 2011.

The Group has elected to measure the non-controlling interests in Zhengshangyou at the non-controlling interests' proportionate share of Zhengshangyou's identifiable net assets.

The fair values of the identifiable assets and liabilities of Zhengshangyou as at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *RMB'000*
Property, plant and equipment	*13*	43
Intangible assets	*17*	2,347
Cash and bank balances		181
Accounts receivable		47
Prepayments, deposits and other receivables		30
Tax payable		(17)
Total identifiable net assets at fair value		2,631
Non-controlling interests		(526)
Goodwill on acquisition	*15*	2,195
Satisfied by cash		4,300

The fair values of the accounts receivable and other receivables as at the date of acquisition amounted to RMB47,000 and RMB30,000, respectively. The gross contractual amounts of accounts receivable and other receivables were RMB47,000 and RMB1,465,000, respectively, of which other receivables of RMB1,435,000 are expected to be uncollectible.

An analysis of the cash flows in respect of the acquisition of Zhengshangyou is as follows:

	RMB'000
Cash consideration paid	(3,800)
Cash and bank balances acquired	181
Net outflow of cash and cash equivalents included in cash flows from investing activities	(3,619)

Since the acquisition, Zhengshangyou contributed RMB2,757,000 to the Group's turnover and RMB38,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the prior year, there would have been no significant impact on the revenue and profit of the Group for the prior year.

(b) On 31 August 2010, the Group acquired a 100% interest in Beijing Zhangzhong Didai Information Technology Ltd. ("Zhangzhong Didai"). Zhangzhong Didai is engaged in the provision of mobile value-added services. The acquisition was made as part of the Group's strategy to expand its market share of the online-games sector in the mobile telecommunication industry. The purchase consideration for the acquisition was in the form of cash, with RMB4,000,000 paid during the year ended 31 December 2010. The remaining RMB1,000,000 was paid in November 2011.

The fair values of the identifiable assets and liabilities of Zhangzhong Didai as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** *RMB'000*
Property, plant and equipment	*13*	3
Intangible assets	*17*	2,246
Cash and bank balances		648
Accounts receivable		608
Prepayments, deposits and other receivables		–
Tax payable		(20)
Total identifiable net assets at fair value		3,485
Goodwill on acquisition	*15*	1,515
Satisfied by cash		5,000

The fair values of the accounts receivable and other receivables as at the date of acquisition amounted to RMB608,000 and nil, respectively. The gross contractual amounts of accounts receivable and other receivables were RMB608,000 and RMB9,385,000, respectively, of which other receivables of RMB9,385,000 are expected to be uncollectible.

An analysis of the cash flows in respect of the acquisition of Zhangzhong Didai is as follows:

	RMB'000
Cash consideration paid	(4,000)
Cash and bank balances acquired	648
Net outflow of cash and cash equivalents included in cash flows from investing activities	(3,352)

Since the acquisition, Zhangzhong Didai contributed RMB6,908,000 to the Group's turnover and RMB2,086,000 to the consolidated profit for the year ended 31 December 2010.

Had the combination taken place at the beginning of the prior year, there would have been no significant impact on the revenue and profit of the Group for the prior year.

35. Pending Litigation

In August 2009, an independent third party company (the "Plaintiff") instituted a legal proceeding against the Company and certain of its subsidiaries (collectively the 'Defendants') claiming damages of RMB16,100,000 in relation to the alleged infringement of the copyright of a song. At a court hearing conducted on 25 May 2010, the Company requested the court to conduct an investigation of evidence procedures, and the court will make a judgement after the completion of the investigation of evidence procedures. On 26 January 2011, the court commenced the investigation of evidence procedures. On 1 July 2011, the Defendants reached an out-of-court settlement agreement with the Plaintiff, pursuant to which the Company would pay RMB500,000 in aggregate to the Plaintiff and in return, the Plaintiff would rescind the legal proceeding. On 25 July 2011, a notification was issued by the court to the Defendants that the case was rescinded. On 4 August 2011, the Plaintiff was paid RMB500,000 pursuant to the settlement agreement.

36. Pledge of Assets

Details of the Group's bank loan which is secured by the assets of the Group, are included in note 27(a) to the financial statements.

37. Operating Lease Commitments

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

	Group	
	2011	**2010**
	RMB'000	*RMB'000*
Within one year	1,055	5,579
In the second to fifth years, inclusive	–	2,519
	1,055	8,098

38. Commitments

In addition to the operating lease commitments detailed in note 37 above, the Group had the following commitments as at the end of the reporting period:

		Group	
		2011	**2010**
	Note	*RMB'000*	*RMB'000*
Authorised, but not contracted for:			
Construction in progress		164,000	281,000
Contracted, but not provided for:			
Construction in progress		83,761	11,000
Acquisition of an investment	*(i)*	16,311	–
		264,072	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.

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

39. Related Party Transactions

(a) On 28 April 2011, the Group entered into the share transfer agreements with, among others, Shenzhen Duyiweier Technology Co. Limited ("Shenzhen Technology") pursuant to which the Group agreed to sell 100% equity interest in Haide and 80% equity interest in Zhengshangyou for a consideration of RMB100,000 and RMB4,700,000, respectively. Mr. Liu owned an 80% equity interest in Shenzhen Technology. Details of the disposals are included in note 33 to the financial statements.

(b) In September 2011, the Group advanced an amount of RMB11 million to Beijing Caiyun, which became owned as to 44.74% by Mr. Liu upon the completion of the domestic restructuring of Beijing Caiyun in October 2011, and thus became a related company of the Group. Details of the Group's other receivable with Beijing Caiyun as at the end of the reporting period are disclosed in note 22 to the financial statements.

(c) Compensation of key management personnel of the Group

	2011	2010
	RMB'000	*RMB'000*
Short term employee benefits	2,982	4,332
Post-employment benefits	131	103
Equity-settled share option expenses	1,013	2,136
Equity-settled share award expenses	165	4,969
Total compensation paid to key management personnel	4,291	11,540

40. Financial Instruments By Category

Other than investments at fair value through profit or loss as disclosed in note 23 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2011 and 2010, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

41. Fair Value and Fair Value Hierarchy

The carrying amounts of the Group's and the Company's financial instruments are approximate to their fair values.

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2011, the investments at fair value through profit or loss amounting to RMB1,880,000 (2010: RMB19,374,000) are measured at fair value in Level 1.

42. Financial Risk Management Objectives and Policies

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

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

(a) Credit risk

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

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

(b) Liquidity risk

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

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

As at 31 December 2011

RMB'000

	Group			
	Within one year or on demand	**In the second year**	**In the third to fifth years, inclusive**	**Total**
Account payables *(note 25)*	26,483	–	–	26,483
Other payables and accruals *(note 26)*	72,439	–	–	72,439
Interest-bearing bank borrowing	889	904	13,625	15,418
	99,811	904	13,625	114,340

As at 31 December 2010

RMB'000

	Group			
	Within one year or on demand	In the second year	In the third to fifth years, inclusive	Total
Account payables *(note 25)*	43,722	–	–	43,722
Other payables and accruals *(note 26)*	53,177	–	–	53,177
	96,899	–	–	96,899

(c) Capital management

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

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

	2011	2010
	RMB'000	*RMB'000*
Cash and cash equivalents	360,596	392,540
Accounts payable	(26,483)	(43,722)
Other payables and accruals	(72,439)	(53,177)
Interest-bearing bank borrowing	(13,000)	–
Net cash over debt position	248,674	295,641

43. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2012.

4. INDEBTEDNESS STATEMENT

As at the close of business on 30 November 2012, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the Group had an outstanding bank loan of approximately RMB70 million, which was secured by the Group's leasehold land situated in the PRC.

Save as aforesaid and apart from intra-group liabilities and normal accounts payable, as at the close of business on 30 November 2012, the Group did not have any other debt securities issued and outstanding or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors are not aware of any material changes in the Group's indebtedness position and contingent liabilities since 30 November 2012 and up to the Latest Practicable Date.

5. WORKING CAPITAL

The Directors are of the opinion that after taking into account the cash flows generated from the operating activities, the financial resources available to the Group including internally generated funds and the existing banking facility available, and the estimated net proceeds from the Rights Issue, the Group has sufficient working capital for its present requirements in the next twelve months from the date of this circular.

6. FINANCIAL AND TRADING PROSPECTS

The industry still faced uncertainty in the second half of 2012. The Group's management aims to strengthen the following business operations:

For music content, the Group will conduct a full range of exploration on the depth and breadth of the Composer Plan and commence the two major projects: "The post-90s artists" and "Commune of Beauty Icons" in which the Group will expand to the field of artist management from the field of content production. Besides, the Group will continue to reinforce the improvement in functions of the A8.com website and construct a more convenient and practical sharing platform for original music.

For the traditional business, the Group will continue to strengthen its cooperation with the three major telecom operators in order to grasp the development opportunity of wireless music. The Group will retain its leading No.1 position for China Mobile and move up to the first tier for China Telecom and China Unicom backed by the resources on contents and promotion channel the Group built up over the years.

For mobile internet business, the Group will build the distribution platform for digital contents and mobile application through the cooperation with telecom operators and handset manufacturers: 1) Continue to expand and deepen the cooperation with leading handset manufacturers while proactively explore the cooperation with internet corporations and internet applications and expand the operation scope. From the level of products, the Group will seize the market and expand its market shares based on the traditional music services and by operating a music service system with "Music APP" as the breakthrough. 2) Continue to deepen the cooperation with the three major telecom operators. For the Project of "Operational Support to Digital Content Channels" with the China Mobile MM (Mobile Market), there will be intensive precision so that simple business cooperation can be enhanced as cooperation in overall support service to operation and a new model in cooperation with operators can be established. 3) Strengthen the industrial chain layout of the Group through prudent investment strategies.

Regarding music cloud business in 2012, the Group will further integrate and optimize the resources of the associated companies 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 in terms of total users and newly registered users.

7. MATERIAL CHANGE

As disclosed in the Profit Warning, the Group is expected to record a loss for the year ended 31 December 2012 which represents a significant decline as compared to the consolidated profit for the year ended 31 December 2011. As disclosed in the Profit Warning and the announcement of the Company dated 25 January 2013, the anticipated loss was due to:

(i) The continuing negative impact brought by the series of measures implemented to the MVAS industry by related industry management divisions and mobile operators in the PRC since 2010. As a result, the Group has recorded a decrease in revenue as at the Latest Practicable Date.

(ii) Restructure of the current business and deployment of new business in the Company which are still in process as at the Latest Practicable Date.

(iii) The effect of sharing of losses of associates of the Company (namely Duomi Music and Shenzhen Ningmenghai Technology Limited).

The Group has also incurred additional interest-bearing bank borrowing in the sum of approximately RMB56.57 million since 31 December 2011. The Group also had capital and other commitments for the A8 building in the amount of approximately RMB170 million relating to (1) the construction of the building; (2) the interior renovation and the exterior glass walls, (3) the studios, demo rooms and theatre; and (4) the air conditioning and electricity as at the Latest Practicable Date.

Save as disclosed above, the Directors were not aware of any other material change in the financial or trading position or outlook of the Group since 31 December 2011, being the date to which the latest audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

1. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

Introduction

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared by the Directors in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the proposed rights issue on the basis of two rights shares for every share held on the record date (the "**Rights Issue**") on the unaudited consolidated net tangible assets of the Group as if the Rights Issue had been completed on 30 June 2012.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the unaudited consolidated net tangible assets of the Group as at 30 June 2012, as extracted from the published unaudited interim financial information of the Group for the six months ended 30 June 2012 as set out in Appendix I to this Circular, after incorporating the unaudited pro forma adjustments described in the accompanying notes.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group following the Rights Issue.

	Unaudited consolidated net tangible assets of the Group attributable to the equity holders as at 30 June 2012 *(Note 3)*	**Estimated net proceeds from the Rights Issue** *(Note 4)*	**Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the equity holders immediately after completion of the Rights Issue** *(Note 7)*	**Unaudited consolidated net tangible assets of the Group per share attributable to the equity holders as at 30 June 2012** *(Note 5)*	**Unaudited pro forma adjusted consolidated net tangible assets of the Group per share attributable to the equity holders immediately after completion of the Rights Issue** *(Note 6)*
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*RMB*
Scenario I					
Rights Issue of 952,564,752 Rights Shares *(Note 1)*	503,623	273,591	777,214	1.06	0.54
Scenario II					
Rights Issue of 965,597,432 Rights Shares *(Note 2)*	503,623	277,323	780,946	1.06	0.54

Notes:

1. The Rights Issue of 952,564,752 Rights Shares is based on 476,282,376 Shares in issue as at 30 June 2012.

2. The Rights Issue of 965,597,432 Rights Shares is based on 482,798,716 Shares in issue assuming (i) no repurchase of Shares; and (ii) the exercise in full of all outstanding Share Options (other than the Director Share Options) pursuant to the Share Option Scheme, but no other Shares are allotted and issued on or before the Record Date.

3. The unaudited consolidated net tangible assets of the Group attributable to the equity holders as at 30 June 2012 is arrived at based on the unaudited consolidated net assets of the Group as at 30 June 2012 of approximately RMB535,679,000 less intangible assets of approximately RMB32,056,000 as set out in the unaudited interim financial information of the Company for the six months ended 30 June 2012 as set out in Appendix I to this Circular.

4. The amount of estimated net proceeds from the Rights Issue is calculated based on 952,564,752 Rights Shares for Scenario I or 965,597,432 Rights Shares for Scenario II to be issued at the subscription price of HK$0.36 per Rights Share. For Scenario I, the amount of estimated net proceeds is arrived at based on the gross proceeds from the Rights Issue of approximately HK$342,923,000 (equivalent to approximately RMB278,059,000) less the estimated related expenses of approximately HK$5,510,000 (equivalent to approximately RMB4,468,000). For Scenario II, the amount of estimated net proceeds is arrived at based on the gross proceeds from the Rights Issue of approximately HK$347,615,000 (equivalent to approximately RMB281,864,000) less the estimated related expenses of approximately HK$5,600,000 (equivalent to approximately RMB4,541,000).

5. The number of Shares used for the calculation of unaudited consolidated net tangible assets per Share is 476,282,376 as at 30 June 2012.

6. The unaudited pro forma adjusted consolidated net tangible assets per Share immediately after completion of the Rights Issue is calculated based on (i) 1,428,847,128 Shares for Scenario I which comprise 476,282,376 Shares in issue as at 30 June 2012 and 952,564,752 Rights Shares expected to be issued on the completion of the Rights Issue; and (ii) 1,448,396,148 Shares for Scenario II which comprise 476,282,376 Shares in issue as at 30 June 2012, 6,516,340 Shares to be issued upon the exercise in full of all outstanding Share Options (other than the Director Share Options) pursuant to the Share Option Scheme and 965,597,432 Rights Shares expected to be issued on the completion of the Rights Issue.

7. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2012. The unaudited pro forma adjusted consolidated net tangible assets does not take into account the changes in net tangible assets arising from the exercise in full of all outstanding Share Options (other than the Director Share Options) pursuant to the Share Option Scheme.

The following is the text of a letter, prepared for the sole purpose of inclusion in this circular, received from the auditors of the Company, Ernst & Young, Certified Public Accountants, Hong Kong.

2. LETTER ON THE UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

ERNST & YOUNG
安 永

22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

30 January 2013

The Directors
A8 Digital Music Holdings Limited

Dear Sirs,

A8 Digital Music Holdings Limited and its subsidiaries
Unaudited Pro Forma Financial Information

We report on the unaudited pro forma adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of A8 Digital Music Holdings Limited (the "Company") and its subsidiaries (the "Group"), set out on pages II-1 to II-2 in Appendix II to the circular of the Company dated 30 January 2013 (the "Circular"), which has been prepared by the directors of the Company (the "Directors") for illustrative purposes only, to provide information about how the Company's proposed rights issue at a subscription price of HK$0.36 per rights share, on the basis of two rights shares for every existing share held (the "Proposed Rights Issue") might have affected the relevant financial information presented in respect of the Group immediately after the completion of the Proposed Rights Issue. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 in Appendix II to the Circular.

Respective Responsibilities of the Directors and Reporting Accountants

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or a review made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2012 or any future dates.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

The statement in relation to the anticipated loss in the Group's consolidated financial statements for the year ended 31 December 2012 as compared with the year ended 31 December 2011 as disclosed in the Profit Warning and referred to in this circular, which constitutes an loss estimate of the Group for the purpose of Rule 10 of the Takeovers Code, is set out in the paragraph headed "Information of the Group" in the section headed "Letter from the Board" in this circular.

1. BASES AND ASSUMPTIONS

The Directors have prepared an estimate of the Group's consolidated net loss attributable to equity holders of the Company for the year ended 31 December 2012 based on the unaudited consolidated results of the Group for the eleven months ended 30 November 2012 and an estimate of the consolidated results of the Group for the remaining one month ended 31 December 2012. The loss estimate for the year ended 31 December 2012 has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by the Group as summarised in Appendix I to this circular and is based on the following principal assumptions:

(i) there will be no material changes in existing political, legal, fiscal, market or economic conditions in Hong Kong and the PRC or any other country or territory where the Group carry on our business or with which the Group has arrangements or agreements, which may have a material adverse effect on our business;

(ii) there will be no material changes in legislation, regulations or rules in Hong Kong and the PRC or any other country or territory where the Group carry on our business or with which the Group have arrangements or agreements, which may have a material adverse effect on our business;

(iii) there will be no material changes in the bases or rates of taxation, both direct or indirect, in Hong Kong and the PRC or any other country or territory where the Group carry on our business;

(iv) there will be no material changes in the rates of inflation, interest or foreign currency exchange in Hong Kong and the PRC from those prevailing as at the last audited reporting date; and

(v) the Group's operations and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Group, including but not limited to the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents.

2. COMFORT LETTERS

The following is the text of a letter received from the auditors of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular in connection with the loss estimate of the Group for the year ended 31 December 2012.

ERNST & YOUNG
安 永

22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

30 January 2013

The Directors
A8 Digital Music Holdings Limited

Dear Sirs,

In connection with the following statement as set out in the announcement of A8 Digital Music Holdings Limited (the "Company") in respect of profit warning made by the board of directors of the Company (the "Directors") on 24 December 2012 (the "Profit Warning Statement"):

> *"The Board wishes to inform the Shareholders and potential investors that based on the information currently available to the Board, the Group is expected to record a loss for the year ending 31 December 2012 which represents significant decline as compared to a consolidated profit for the year ended 31 December 2011 which is mainly due to the following reasons: 1) the continuing negative impact brought by the series of measures and policies implemented to MVAS industry by related management divisions and mobile operators in China since 2010; 2) the restructure of the current business and deployment of new business in the Company are still in process; and 3) the effect of sharing of losses of associates."*

We have been advised by the Directors that the Profit Warning Statement is based on the preliminary assessment by the management of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") of the estimated consolidated net loss attributable to equity holders of the Company for the year ended 31 December 2012 (the "Loss Estimate") which is prepared based on the unaudited consolidated results of the Group for the eleven months ended 30 November 2012 and an estimate of the consolidated results of the Group for the remaining one month ended 31 December 2012.

We have reviewed the calculations of and the accounting policies adopted in arriving at the Loss Estimate as set out in the Appendix III "Loss Estimate" to the circular of the Company dated 30 January 2013 (the "Circular") for which the Directors are solely responsible.

We conducted our work with reference to Auditing Guideline 3.341 *Accountants' Report on Profit Forecasts* issued by the Hong Kong Institute of Certified Public Accountants.

In our opinion, so far as the accounting policies and calculations are concerned, the Loss Estimate has been properly compiled in accordance with the bases and assumptions made by the Directors as set out in Section 1 of Appendix III to the Circular, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in the audited consolidated financial statements for the year ended 31 December 2011, the text of which is set out in Appendix I to the Circular.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter received from Guangdong Securities prepared for the purpose of incorporation in this circular in connection with the loss estimate of the Group for the year ended 31 December 2012.

粵海證券有限公司
GUANGDONG SECURITIES LIMITED

The Board of Directors
A8 Digital Music Holdings Limited
Suites 06-12
33/F., Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

30 January 2013

Dear Sirs,

Terms used in this letter have the same meanings as defined in the circular of A8 Digital Music Holdings Limited dated 30 January 2013, of which this letter forms part, unless the context requires otherwise. We refer to the profit warning statement made by the Company that "the Group is expected to record a loss for the year ending 31 December 2012 which represents significant decline as compared to a consolidated profit for the year ended 31 December 2011" as set out in the announcement of the Company dated 24 December 2012 (the "**Loss Estimate**").

We have reviewed the Loss Estimate and other relevant information and documents which you as the Directors are solely responsible for and discussed with you and the senior management of the Company the information and documents provided by you which formed the key bases and assumptions upon which the Loss Estimate has been made, which are set out in Section 1 of Appendix III to the Circular. In addition, we have considered, and relied upon, the report addressed to the Board from Ernst & Young dated 30 January 2013 regarding the accounting policies and the arithmetical accuracy of the calculations upon which the Loss Estimate has been made.

On the basis of the foregoing, we are of the opinion that the Loss Estimate, for which the Directors are solely responsible, has been made with due care and consideration.

Yours faithfully
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than information relating to Ever Novel) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by Ever Novel) have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement (other than those relating to Ever Novel) in this circular misleading.

The directors of Ever Novel jointly and severally accept full responsibility for the accuracy of the information relating to Ever Novel contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular by Ever Novel have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement relating to Ever Novel contained in this circular misleading.

2. SHARE CAPITAL

(a) The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following completion of the Rights Issue were/will be as follows:

(i) *As at the Latest Practicable Date*

Authorised:		*HK$*
3,000,000,000	Shares of HK$0.01 each	30,000,000
Issued and fully paid:		
476,282,376	Shares	4,762,823.76

(ii) Immediately following the completion of the Rights Issue (assuming no exercise of the outstanding Share Options and no other Shares are allotted and issued on or before the Record Date)

Authorised:		*HK$*
3,000,000,000	Shares of HK$0.01 each	30,000,000
Issued and fully paid/to be issued:		
476,282,376	Shares as at the Latest Practicable Date	4,762,823.76
952,564,752	Rights Shares to be allotted and issued under the Rights Issue	9,525,647.52
1,428,847,128	Shares upon completion of the Rights Issue	14,288,471.28

(iii) Immediately following the completion of the Rights Issue (assuming exercise of all the outstanding Share Options (other than the Director Share Options) but no other Shares are allotted and issued before the Record Date)

Authorised:		*HK$*
3,000,000,000	Shares of HK$0.01 each	30,000,000
Issued and fully paid/to be issued:		
476,282,376	Shares as at the Latest Practicable Date	4,762,823.76
6,516,340	Shares to be allotted and issued pursuant to the exercise of all outstanding Share Options (other than the Director Share Options)	65,163.40
965,597,432	Rights Shares to be allotted and issued under the Rights Issue	9,655,974.32
1,448,396,148	Shares upon completion of the Rights Issue	14,483,961.48

The Company has issued 305,880 new Shares since 31 December 2011 and up to the Latest Practicable Date.

All the existing Shares in issue are fully-paid and rank pari passu in all respects including all rights as to dividends, voting and return of capital. The Rights Shares (when allotted, issued and fully-paid) will rank pari passu with the then existing Shares in issue in all respects. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid on or after the date of allotment of the Rights Shares. As at the Latest Practicable Date, there were no arrangement under which future dividends are waived or agreed to be waived.

(b) Share Option Scheme

Details of the Share Options granted by the Company pursuant to the Share Option Scheme are as follows:

Name/Category of Participants	As at 30 June 2012	Exercised	Lapsed	As at Latest Practicable Date	Date of grant	Vesting period	End of exercise period	Exercise price (HK$ per Share)
Directors								
Mr. Liu	455,441	–	–	455,441	5 October 2009	One-third of the Share Options will be vested every 12-month period starting from 5 October 2010	5 October 2014	3.168
Mr. Lu Bin	2,340,000	–	–	2,340,000	25 March 2011	One-fourth of the Share Options will be vested every 12-month period starting from 11 May 2012	24 March 2016	2.41
	2,795,441	–	–	2,795,441				
Senior Management of the Group								
	600,000	–	–	600,000	25 March 2011	One-fourth of the Share Options will be vested every 12-month period starting from 20 September 2011	24 March 2016	2.41
	400,000	–	–	400,000	18 August 2011	One-fourth of the Share Options will be vested every 12-month period starting from 9 August 2012	17 August 2016	1.20
	1,000,000	–	–	1,000,000				

Name/Category of Participants	As at 30 June 2012	Exercised	Lapsed	As at Latest Practicable Date	Date of grant	Vesting period	End of exercise period	Exercise price (HK$ per Share)
Other employees and eligible persons								
	2,202,640	–	–	2,202,640	15 October 2008	One-fourth of the Share Options will be vested every 12-month period starting from 15 October 2009	14 October 2018	1.184
	671,550	–	211,850	459,700	5 October 2009	one-fourth of the Share Options will be vested every 12-month period starting from 1 July 2010	5 October 2014	3.168
	108,000	–	–	108,000	24 December 2009	Minimum of 2 years and maximum of 4 years	24 December 2014	3.20
	3,142,000	–	396,000	2,746,000	25 March 2011	one-fourth of the Share Options will be vested every 12-month period starting from 25 March 2012	24 March 2016	2.41
	600,000	–	600,000	–	18 August 2011	One-fourth of 600,000 Share Options will be vested every 12-month period starting from 18 December 2012 and one-fourth of 200,000 Share Options will be vested every 12-month period starting from 30 January 2013	17 August 2016	1.20
	6,724,190	–	1,207,850	5,516,340				
In aggregate	10,519,631			9,311,781				

As at the Latest Practicable Date, save as the Share Options, the Company had no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

3. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the last trading day of each of the calendar months during the Relevant Period; (ii) the Last Trading Day and (iii) the Latest Practicable Date.

Date	**Share price** *(HK$)*
31 July 2012	0.7500
31 August 2012	0.6600
28 September 2012	0.7500
31 October 2012	0.7800
30 November 2012	0.7600
31 December 2012	0.7000
4 January 2013 (Last Trading Day)	0.7500
25 January 2013 (Latest Practicable Date)	0.6400

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$0.8800 on 6 July 2012 and HK$0.6400 on 8 January 2013, 9 January 2013 and 25 January 2013 respectively.

4. DISCLOSURE OF INTEREST

(I) Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short position of the Directors and the chief executives of the Company and each of their respective associates, in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are deemed or taken to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Long position in the Shares

Name of Director	Nature of interest	Ordinary Shares	Underlying Shares (under equity derivatives of the Company)	Total	Approximate percentage of shareholding *(Note 1)*
Mr. Liu	Founder of trust	1,086,017,386 *(Note 2)*	Nil	1,092,238,827	229.33%
	Beneficial owner	5,766,000 *(Note 3)*	455,441		
Mr. Lu Bin	Beneficial owner	Nil	2,340,000	2,340,000	0.49%

Notes:

(1) The percentage shareholding in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date (i.e. 476,282,376 Shares).

(2) Mr. Liu is the founder of a family trust which is deemed under SFO to be interested in all the Shares held by Ever Novel and Prime Century in the Company. These Shares comprised (i) 122,371,905 Shares directly held by Prime Century and 244,743,810 Committed Shares; and (ii) 45,092,049 Shares directly held by Ever Novel, 90,184,098 Committed Shares and 583,625,524 Underwritten Shares.

(3) These Shares comprised 1,922,000 Shares directly held by Mr. Liu and 3,844,000 Committed Shares.

(II) Long positions in associated corporations of the Company

Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian")

Name of Director	Nature of interest	Long positions in the registered capital *(RMB)*	Approximate percentage of interest in the associated corporation's registered capital
Mr. Liu	Beneficial owner	21,510,000	75%

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

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

(III) Substantial Shareholders

So far as is known to the Directors and the chief executives of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group, or held any option in respect of such capital:

Name of substantial Shareholder	Nature of interest		Long positions in the Shares	Approximate percentage of shareholding *(Note 1)*
HSBC International Trustee Limited	Trustee (other than a bare trustee)		185,893,954 *(Note 2)*	39.03%
River Road Investment Limited	Interest in controlled corporation		167,041,954 *(Note 2)*	35.07%
Knight Bridge Holdings Limited	Interest in controlled corporation		216,839,023 *(Note 2)*	45.53%
Ever Novel	Interest in controlled corporation	*367,115,715 (Note 3)*	1,086,017,386	228.02%
	Beneficial Owner	*718,901,671 (Note 4)*		
Prime Century	Beneficial Owner		367,115,715 *(Note 3)*	77.08%

Notes:

(1) The percentage shareholding in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date i.e. 476,282,376 Shares.

(2) The number of Shares held by the substantial Shareholder is based on the notice of disclosure of interests filed with the Stock Exchange.

(3) These Shares comprised 122,371,905 Shares directly held by Prime Century and 244,743,810 Committed Shares. Ever Novel was entitled to exercise or control the exercise of one third or more of the voting power at the general meetings of Prime Century and was deemed to be interested in all the Shares held by Prime Century.

(4) These Shares comprised 45,092,049 Shares directly held by Ever Novel, 90,184,098 Committed Shares and 583,625,524 Underwritten Shares.

Save as disclosed herein, as at the Latest Practicable Date, there was no other person so far as is known to the Directors and chief executives of the Company, other than a Director or chief executive of the Company had an interest or a short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. SERVICE CONTRACTS

Mr. Lu Bin, an executive Director, had entered into two service contracts with the Group respectively for his role as a Director and the chief financial officer ("**CFO**") of the Group. The Director service contract is for a term of three years commencing from 19 August 2011 ending on 18 August 2014, unless and until terminated by either the Company or Mr. Lu giving to the other not less than 3 months' prior written notice or payment in lieu of such notice. Pursuant to his Director service contract, Mr. Lu is entitled to a fixed annual remuneration of HK$624,000 (equivalent to approximately RMB505,970.40) and the same allowances and pension benefits enjoyed by other employees of the Company. The CFO service contract is for a term of 5 years commencing from 11 February 2011 ending on 10 February 2016, unless or until terminated by Mr. Lu giving 30 days' prior written notice or by the Group pursuant to the terms and conditions of the CFO service contract. Pursuant to the CFO service contract, Mr. Lu is entitled to a fixed annual remuneration of RMB526,020. The amount of pension benefits is paid in proportion to Mr. Lu's remuneration under the CFO service contract in accordance with the applicable rules and policy of the PRC governing the same from time to time. During the year ended 31 December 2012, the aggregate remuneration paid to Mr. Lu for these two roles was approximately RMB1.03 million. None of these service contract has been replaced or amended.

Ms. Wu Shihong, an independent non-executive Director, had entered into a service contract with the Company for a term of three years commencing from 27 March 2012 and ending on 26 March 2015, unless and until terminated by either the Company or Ms. Wu giving to the other not less than 3 months' prior written notice or payment in lieu of such notice. Pursuant to the service contract, Ms. Wu is entitled to a fixed annual remuneration of HK$90,000. There is no variable remuneration payable under Ms. Wu's service contract with the Company. This service contract has not been replaced or amended.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (i) which has been entered into or amended within 6 months before the date of the First Announcement; (ii) which is continuous contract with a notice period of 12 months or more; (iii) which is fixed term contract with more than 12 months to run irrespective of the notice period; and (iv) which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

References are made to the circular of the Company dated 20 November 2012 and announcements of the Company dated 14 December 2012 and 16 January 2013, in relation to, among other matters, the subscription of 13,853,868 preferred shares of Duomi Music for the consideration of US$6 million by Phoenix Success Limited (a wholly-owned subsidiary of the Company) pursuant to a subscription agreement dated 17 September 2012. As at the Latest Practicable Date, Mr. Liu, as an executive Director, through Fortune Light Investment Limited ("**Fortune Light**"), owned 32.71% shares of Duomi Music. Saved as disclosed above, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2011 (being the date to which the latest audited financial statements of the Group were made up) and up to the Latest Practicable Date, been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

As at the Latest Practicable Date, save for Ever Novel (a company controlled by Mr. Liu) being a party to the Underwriting Agreement, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the date of this circular which was significant in relation to the business of the Group.

7. COMPETING INTEREST

References are made to the circular of the Company dated 20 November 2012 and announcements of the Company dated 14 December 2012 and 16 January 2013, Mr. Liu, as an executive Director, through Fortune Light, owned 32.71% shares of Duomi Music as at the Latest Practicable Date. Duomi Music and its subsidiaries are principally engaged in providing online and connected digital music services directly to consumers.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective associates had any direct or indirect interest in a business which competes or may compete with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder).

8. OTHER DISCLOSURE OF INTEREST

(a) Save for the Underwriter, Mr. Liu and Grand Idea (who have irrevocably undertaken to accept and/or procure the acceptance of, in aggregate, 381,971,908 Rights Shares), no persons who owned or controlled any shareholding in the Company had irrevocably committed themselves to accept or reject the Rights Issue or to approve or disapprove the Underwriting Agreement and/or the Whitewash Waiver prior to the posting of this circular;

(b) As at the Latest Practicable Date, save for the Underwriting Agreement, there was no agreement, arrangement or understanding between the Underwriter and any parties acting in concert with it and other persons in relation to the transfer, charge or pledge of the Shares that may be allotted and issued to the Underwriter or any of its concert parties under the Rights Issue;

(c) As at the Latest Practicable Date, the Company did not hold any shares, convertible securities, warrants, options or derivatives of the Underwriter and it did not have any dealing in any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) of the Underwriter during the Relevant Period;

(d) As at the Latest Practicable Date, none of the Director held any shares, convertible securities, warrants, options or derivatives of the Underwriter and none of the Directors had any dealing in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Underwriter during the Relevant Period;

(e) As at the Latest Practicable Date, (i) Mr. Liu held 122,371,905 Shares and 455,441 Share Options; and (ii) Mr. Lu Bin held 2,340,000 Share Options. Save as aforesaid, none of the Directors held any Share, convertible securities, warrants, options or derivatives of the Company and none of the Directors had any dealing in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company during the Relevant Period;

(f) As at the Latest Practicable Date, the Underwriter and parties acting in concert with it held an aggregate of 190,985,954 Shares, representing approximately 40.10% of the issued share capital of the Company;

(g) As at the Latest Practicable Date and during the Relevant Period, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company, or with any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of associate under the Takeovers Code;

(h) Save for the Shares held and dealt for the accounts of the non-discretionary clients by the brokerage division of Guangdong Securities, as at the Latest Practicable Date and during the Relevant Period, none of (i) the subsidiaries of the Company; (ii) the pension fund of the Company or of a subsidiary of the Company; (iii) any advisers to the Company (as specified in class (2) of the definition of “associate” under the Takeovers Code) had any interest in the Shares, convertible securities, warrants, options or derivatives of the Company and none of them had dealt for value in any such securities of the Company during the Relevant Period;

(i) As at the Latest Practicable Date and during the Relevant Period, no Shares, convertible securities, warrants, options or derivatives of the Company were managed on a discretionary basis by fund managers connected with the Company;

(j) As at the Latest Practicable Date, none of (i) Ever Novel or any person acting in concert with it; and (ii) the Company or the Directors had borrowed or lent the Shares;

(k) As at the Latest Practicable Date, save for the underwriting commission payable under the Underwriting Agreement, no benefit would be given to any Director as compensation for loss of office in any member of the Group or otherwise in connection with the Underwriting Agreement, Rights Issue and/or the Whitewash Waiver;

(l) As at the Latest Practicable Date, save for the Underwriting Agreement and the Director Undertakings, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Underwriting Agreement, Rights Issue and/or the Whitewash Waiver or otherwise connected with the Underwriting Agreement, Rights Issue and/or the Whitewash Waiver; and

(m) As at the Latest Practicable Date, save for the Underwriting Agreement, there was no material contract entered into by the Underwriter in which any Director had a material personal interest.

9. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their advice and recommendation which are included in this circular:

Name	**Qualification**
Ernst & Young	Certified Public Accountants
Guangdong Securities Limited	a corporation licensed under the SFO 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

Each of Ernst & Young and Guangdong Securities has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion of its respective letter, report and/or references to its respective name and/or its opinion in the form and context in which they are included.

As at the Latest Practicable Date, neither Ernst & Young nor Guangdong Securities was beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, neither Ernst & Young nor Guangdong Securities had any direct or indirect interest in any assets which had since 31 December 2011 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

10. LITIGATION

None of the member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material important known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

11. MATERIAL CONTRACTS

During the two years immediately preceding the date of the First Announcement and up to the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group and are or may be material:

(a) the capital increase agreement dated 31 January 2011 and entered into between 深圳市雲海情天文化傳播有限公司 (Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd.) ("**Yunhai Qingtian**"), a wholly-owned subsidiary of the Company, Mr. Liu Tao, Mr. Lin Yizhong, Mr. Wang Wei and 深圳市檸檬海科技有限公司 (Shenzhen Ningmenghai Technology Co., Ltd.) ("**Ningmenghai**"), in relation to, among other matters, the subscription of 20% of the equity interests of the enlarged registered capital of Ningmenghai, for the consideration of RMB5,300,000, further details of which are set out in the announcement of the Company dated 31 January 2011;

(b) the main construction contract dated 21 April 2011 and entered into by 深圳市華動飛天網絡技術開發有限公司 (Shenzhen Huadong Feitian Network Development Co., Ltd.), a wholly-owned subsidiary of the Company, and 中國建築第二工程局有限公司 (China Construction Second Engineering Bureau Co. Ltd.) for the main construction works of A8 Building at Southern District of Hi-Tech Park, Nanshan District, Shenzhen, Guangdong Province, the PRC for the aggregate consideration of RMB91,377,071.90, further details of which are set out in the announcement of the Company dated 21 April 2011;

(c) the share transfer agreement dated 28 April 2011 and entered into between 江蘇廣視科貿發展有限公司 (Jiangsu Guangshi Science and Trade Development Limited), a wholly-owned subsidiary of the Company, and 深圳市讀一為二科技有限公司 (Shenzhen Duyiweier Technology Co. Limited) ("**Shenzhen Technology**") in relation to the sale of the entire issued share capital of 北京海德中世文化傳媒有限公

司 (Beijing Haide Zhongshi Cultural Broadcasting Co., Ltd.) for the consideration of RMB100,000, further details of which are set out in the announcement of the Company dated 28 April 2011;

(d) the share transfer agreement dated 28 April 2011 and entered into between 福州卓龍天訊信息技術有限公司 (Fuzhou Zhuolong Tianxun Information Technology Ltd.), a wholly-owned subsidiary of the Company, and Shenzhen Technology in relation to the sale of 80% of the issued share capital of 北京錚尚游文化傳播有限公司 (Beijing Zhengshangyou Cultural Broadcasting Co., Ltd.) for the consideration of RMB4,700,000, further details of which are set out in the announcement of the Company dated 28 April 2011;

(e) the share subscription agreement dated 19 September 2011 and entered into by Duomi Music Holding (Cayman) Company Limited ("**Duomi Music Cayman**"), Boundless Melody Company Limited（悦聆網絡有限公司）, 深圳市磬笙同音科技有限公司 (Shenzhen Qingsheng Tongyin Technology Co. Ltd.), 北京彩雲在綫技術開發有限公司 (Beijing Caiyun Online Technology Co. Limited), Phoenix Success Limited (a wholly-owned subsidiary of the Company), Success Reach Investments Limited, Bile Investments Limited, Shi Jimmy Jian-Ping, Fortune Sail Investments Limited, Mr. Liu, Feng Yousheng, Gu Weidong, Huang Bo, Li Yonghua and Feng Jiankang in relation to, among other matters, the subscription of new shares of Duomi Music Cayman, under which Phoneix Success Limited conditionally agreed to subscribe for 36,393,360 new shares of Duomi Music Cayman for a consideration of RMB19 million ("**First Duomi Music Cayman Share Subscription Agreement**"), further details of which are set out in the announcement of the Company dated 19 September 2011;

(f) the share transfer agreement dated 24 October 2011 and entered into between 深圳市快通聯科技有限公司 (Shenzhen Kuaitonglian Technology Company Limited) ("**Kuaitonglian**") (an indirectly controlled subsidiary of the Company) and 深圳市掌盈天下科技開發有限公司 (Shenzhen Zhangying Tianxia Technology Development Company Limited) ("**Zhangying Tianxia**") in relation to the purchase of 8.14% equity interest of Zhangying Tianxia in each of 廣州酷狗計算機科技有限公司 (Guangzhou Kugou Computer Technology Company Limited), 廣州思浪資訊科技有限公司 (Guangzhou Silang Information Technology Company Limited) and KuGou Holding Limited for the total consideration of RMB16,311,090 ("**Kuaitonglian Share Transfer Agreement**"), further details of which are set out in the announcement of the Company dated 24 October 2011;

(g) the supplemental agreement dated 30 December 2011 and entered into between Duomi Music, Duomi Music Cayman, Boundless Melody Company Limited, Boundless Melody Hong Kong Limited（悦聆香港有限公司）, Mr. Liu, Feng Yousheng, Gu Weidong, Huang Bo, Li Yonghua, Feng Jiankang, Phoenix Success Limited (a wholly-owned subsidiary of the Company), Bile Investments Limited, Shi Jimmy Jian-Ping, Fortune Sail Investments Limited, Success Reach Investments Limited, Red Gold Investments Limited, Fortune Light, Beyond Faith Limited and Hero Victory Investments Limited in relation to the First Duomi Music Cayman Share Subscription Agreement for the change of transaction parties by using newly-registered offshore special purpose vehicles to participate in the same, further details of which are set out in the announcement of the Company dated 23 April 2012;

(h) the termination agreement dated 19 January 2012 and entered into between Kuaitonglian and Zhangying Tianxia for the termination of the Kuaitonglian Share Transfer Agreement, further details of which are set out in the announcement of the Company dated 19 January 2012;

(i) the shareholders' agreement dated 23 April 2012 and entered into by Duomi Music, Phoenix Success Limited (a wholly-owned subsidiary of the Company), Beyond Faith Limited, Bile Investments Limited, Fortune Light and Hero Victory Investments Limited, in relation to, among other matters, the management of Duomi Music and there is no consideration involved in this agreement, further details of which are set out in the announcement of the Company dated 23 April 2012;

(j) the share subscription agreement dated 17 September 2012 and entered into between Duomi Music, Boundless Melody Hong Kong Limited, 北京歡舞悦動網絡科技有限公司 (Beijing Huanwu Yuedong Internet Technology Co., Ltd.), 北京彩雲在綫技術開發有限公司 (Beijing Rainbow Online Technology Co. Ltd.), Shi Jimmy Jian-Ping, Feng Yousheng, Mr. Liu, Bile Investments Limited, Beyond Faith Limited, Hero Victory Investments Limited, Fortune Light, Phoenix Success Limited (a wholly-owned subsidiary of the Company), Huayi Brothers International Investment Ltd. and Hina Group Fund L.P. in relation to, among other maters, the subscription of 13,853,868 preferred shares of Duomi Music for the consideration of US$6 million, further details of which are set out in the circular of the Company dated 20 November 2012;

(k) the shareholders agreement dated 17 September 2012 and entered into by Duomi Music, Boundless Melody Hong Kong Limited, 北京歡舞悦動網絡科技有限公司 (Beijing Huanwu Yuedong Internet Technology Co., Ltd.), 北京彩雲在綫技術開發有限公司 (Beijing Rainbow Online Technology Co., Ltd.), 北京好音味網絡科技有限公司 (Beijing Haoyinwei Internet Technology Co., Ltd.), 北京勉致網絡科技有限公司 (Beijing Mianzhi Internet Technology Co., Ltd.), 深圳市磬笙同音科技有限公司 (Shenzhen Qingsheng Tongyin Technology Co., Ltd.), 深圳市匯音創世科技有限公司 (Shenzhen Huiyin Chuangshi Technology Co., Ltd.), 深圳市開心聽信息科技有限公司 (Shenzhen Kaixinting Information and Technology Co., Ltd.), Shi Jimmy Jian-Ping, Feng Yousheng, Mr. Liu, Bile Investments Limited, Beyond Faith Limited, Hero Victory Investments Limited, Fortune Light, Phoenix Success Limited (a wholly-owned subsidiary of the Company), Huayi Brothers International Investment Ltd. and Hina Group Fund L.P. in relation to, among other matters, the management of Duomi Music as well as the ownership of shares in Duomi Music and there is no consideration involved in this agreement;

(l) the Underwriting Agreement;

(m) the First Supplemental Underwriting Agreement; and

(n) the Second Supplemental Underwriting Agreement.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:00 a.m. to 5:30 p.m. on any Business Day at (i) the principal place of business of the Company in Hong Kong at Suites 06-12, 33/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong; on the website of the SFC at www.sfc.hk; and (iii) on the website of the Company at http://ir.a8.com from the date of this circular up to and including 19 February 2013 and at the EGM:

(i) the memorandum and articles of association of the Company;

(ii) the memorandum and articles of association of Ever Novel;

(iii) the annual reports of the Company for the two financial years ended 31 December 2011 and the interim report of the Company for the six months ended 30 June 2012;

(iv) the letter from Guangdong Securities containing its advice to the Independent Board Committee and Independent Shareholders, the text of which is set out in the section headed "Letter from Guangdong Securities" on pages 33 to 53 of this circular;

(v) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" on pages 31 to 32 of this circular;

(vi) the written consents as referred to in the paragraph headed "Experts and Consents" in this appendix;

(vii) the letter from Ernst & Young on the loss estimate of the Company, the text of which is set out on pages III-2 to III-3 of this circular;

(viii) the letter from Guangdong Securities on the loss estimate of the Company, the text of which is set out on page III-4 of this circular;

(ix) the letter from Ernst & Young on the statement of the unaudited pro forma consolidated net tangible assets of the Group, the text of which is set out on pages II-3 to II-5 of this circular;

(x) the material contracts referred to under the section headed "Material Contracts" in this appendix;

(xi) the Director Undertakings and the Grand Idea Undertaking;

(xii) the service contracts entered into between the Company with Mr. Lu Bin and Ms. Wu Shihong referred to in the paragraph headed "Service Contracts" in this appendix;

(xiii) the circular dated 20 November 2012 and issued by the Company pursuant to the requirements set out in Chapters 14 and 14A which has been issued since the date of the latest published audited accounts of the Company; and

(xiv) this circular.

13. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION

Principal place of business in Hong Kong	Suites 06-12 33/F, Shui On Centre 6-8 Harbour Road Wanchai, Hong Kong
Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Underwriter	Ever Novel Holdings Limited Room 1401 Java Commercial Centre 128 Java Road North Point Hong Kong
Legal adviser to the Company	*As to Hong Kong Law* Leung & Lau 3rd Floor Agricultural Bank of China Tower 50 Connaught Road C. Central Hong Kong
Auditor	Ernst & Young 22nd Floor CITIC Tower 1 Tim Mei Avenue Central, Hong Kong

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders	Guangdong Securities Limited Units 2505-06, 25/F Low Block of Grand Millennium Plaza 181 Queen's Road Central Hong Kong
Principal bankers	China Merchants Bank Futian sub-branch Block West 1/F, Nanguang Building No.5, Futian District Shenzhen China
	Standard Chartered Bank (Hong Kong) Limited 13/F, Standard Chartered Bank (Hong Kong) Ltd 4-4A Des Voeux Road Central Hong Kong
	Credit Suisse, Hong Kong Branch 23/F, Three Exchange Square 8 Connaught Place Central Hong Kong
Principal share registrar and transfer agent	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road, George Town Grand Cayman KY1-1110 Cayman Islands
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712-1726, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Authorised representatives	Mr. Liu Xiaosong Suites 06-12 33/F, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong

	Ms. Gao Keying Suites 06-12 33/F, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
Joint company secretaries	Ms. Ho Yip, Betty, *AICPA,HKICPA* Ms. Gao Keying

14. DIRECTORS AND SENIOR MANAGEMENT PROFILE

Particulars of Directors and senior management

Name	Correspondence Address
Executive Director	
Mr. Liu Xiaosong	Suites 06-12 33/F, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
Mr. Lu Bin	Suites 06-12 33/F, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
Independent Non-executive Director	
Mr. Chan Yiu Kwong	Suites 06-12 33/F, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
Mr. Zeng Liqing	Suites 06-12 33/F, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
Ms. Wu Shihong	Suites 06-12 33/F, Shui On Centre 6-8 Harbour Road Wanchai Hong Kong
Senior Management	
Mr. Su Wei	5/F, Fucheng Hi-tech Building South-1 Avenue Southern District of Hi-tech Park Nanshan District Shenzhen Guangdong Province The PRC

Executive Directors

(1) Mr. Liu Xiaosong

Mr. Liu Xiaosong, aged 47, is an executive Director, the Chairman and the Chief Executive Officer of the Company. Mr. Liu graduated from Hunan University in the PRC in 1984, with a Bachelor's degree in Electrical Engineering. In 1987, Mr. Liu graduated from China Electric Power Research Institute in the PRC with a Master's degree in Engineering. In 1991, he studied at Tsinghua University as a PhD research student. He has diversified experience in the technology, media and telecommunications industry. He is one of the co-founders of Tencent Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00700.HK). In 2004, Mr. Liu was admitted to the Shenzhen Experts Working Union. Mr. Liu was appointed as the Vice President of the Copyright Union of the Internet Society of China and the Copyright Society of China in August 2007 and September 2007 respectively. He is also the Vice President of the Shenzhen Hi-tech Association. He is the founder of the Group and was appointed as a Director on 2 October 2007. Mr. Liu is currently responsible for the overall strategic planning and the whole business operation and management of the Group.

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

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

Mr. Liu has not held any directorships in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years.

Save as disclosed, Mr. Liu does not have any relationships with any other Directors, senior management, substantial Shareholders (as defined in the Listing Rules) or controlling Shareholders (as defined in the Listing Rules) of the Company.

(2) Mr. Lu Bin

Mr. Lu Bin, aged 43, is an executive Director and the CFO of the Company. Mr. Lu graduated from Tsinghua University in 1992 with a Bachelor's degree in Engineering. In 2000, he obtained a degree of Master of Business Administration in Corporate Finance from The Ohio State University with the honor of excellent graduate. He studied Accounting at The Ohio State University in 2007. Mr. Lu has worked with Anaren, Inc (Nasdaq: ANEN) as Division Chief Financial Officer and Controller, and has worked as Partner for Janney & Lee Investment LLC.. He also held various finance management positions at China Network Communication Co., Ltd. (which has been acquired by China Unicom), Dell Inc. (Nasdaq: Dell) and China International Trust and Investment Corporation (currently known as CITIC

Group). Mr. Lu has over 18 years' experience in strategic planning of corporate finance, finance management, equity investment, etc., and over 10 years' diversified working experience and in-depth understanding in the telecommunication and internet industries. Mr. Lu joined the Company in February 2011 as the CFO and was appointed as an executive Director on 19 August 2011.

Save as disclosed above, Mr. Lu has not held any directorships in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years and he does not hold other positions with the Company or other members of the Group.

As far as the Directors are aware, Mr. Lu does not have any relationships with any other Directors, senior management, substantial Shareholders (as defined in the Listing Rules) or controlling Shareholders (as defined in the Listing Rules) of the Company.

Independent non-executive Directors

(1) Mr. Chan Yiu Kwong

Mr. Chan Yiu Kwong, aged 48, is an independent non-executive Director. Mr. Chan graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences in 1988. He was admitted as a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants in 1999 and 2005 respectively. From June 2004 to July 2006, Mr. Chan served as an independent non-executive director of Beijing Enterprises Water Group Limited (formerly known as "Shang Hua Holding Limited"), a company listed on the Main Board of the Stock Exchange (Stock Code: 00371.HK). From March 2001 to December 2007, Mr. Chan served as an executive director of Hi Sun Technology (China) Limited ("Hi Sun"), a company listed on the Main board of the Stock Exchange (Stock Code: 00818.HK). Between 2005 and 2010, Mr. Chan served as an independent non-executive director of Biosino Bio-Technology and Science Incorporation, a company listed on the Growth Enterprises Market of the Stock Exchange (Stock Code: 08247.HK). Mr. Chan currently serves as joint company secretary of Hi Sun and a joint company secretary of Pax Global Technology Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00327.HK). He has years of diversified experience in auditing, business advisory and corporate management. He was appointed as an independent non-executive Director on 9 November 2007.

Save as disclosed above, Mr. Chan has not held any other directorships in listed public companies in the last three years.

As far as the Directors are aware, Mr. Chan does not have any relationships with any other Directors, senior management, substantial Shareholders (as defined in the Listing Rules) or controlling Shareholders (as defined in the Listing Rules) of the Company.

(2) Mr. Zeng Liqing

Mr. Zeng Liqing, aged 43, is an independent non-executive Director. Mr. Zeng graduated from Xi'an University of Electronic Science and Technology in 1993 with a bachelor's degree in Computer Communication. He has years of diversified working experience and has good knowledge of the internet and telecom Industry in China. He was one of the five founders of Tencent Holdings Limited ("Tencent"), a listed company on the Main Board of The Stock Exchange (Stock code: 00700.HK). He acted as the Chief Operating Officer and was responsible for overseeing the business operation of Tencent from 1999 to 2007, and is an honorary life advisor of Tencent. From May 2007, Mr. Zeng expanded into the investment field and founded Shenzhen Dexun Investment Limited（深圳市德迅投資有限公司） and acts as the Chairman. He was appointed as an independent non-executive Director on 23 October 2009.

Save as disclosed above, Mr. Zeng has not held any other directorships in listed public companies in the last three years.

As far as the Directors are aware, Mr. Zeng does not have any relationships with any other Directors, senior management, substantial Shareholders (as defined in the Listing Rules) or controlling Shareholders (as defined in the Listing Rules) of the Company.

(3) Ms. Wu Shihong

Ms. Wu Shihong, aged 55, has extensive experience in the information technology industry. She joined IBM China in 1985 and held the position of General Manager for channel management of IBM China from May 1997 to February 1998. She then acted as the General Manager of Microsoft China Co. Ltd. until August 1999. From December 1999 to December 2002, Ms. Wu was a Vice President of TCL Corporation as well as the General Manager of TCL Information Technology Industrial (Group) Co. Limited. She is an independent non-executive director of TCL Multimedia Technology Holdings Limited (Stock Code: 01070.HK) since June 2007. Ms. Wu is the founder, the Chairman and Chief Executive Officer of Shanghai Blackspace Info. Tech. Co. Limited from May 2008. Ms. Wu was appointed as an independent non-executive Director on 27 March 2012.

Save as disclosed above, Ms. Wu has not held any other directorships in listed public companies in the last three years and does not hold other positions with the Company or other members of the Group.

As far as the Directors are aware, Ms. Wu does not have any relationships with any other Directors, senior management, substantial Shareholders (as defined in the Listing Rules) or controlling Shareholders (as defined in the Listing Rules) of the Company.

Senior Management of the Group

Mr. Su Wei

Mr. Su Wei, aged 37, the Chief Operation Officer of the Group. He graduated from the Shanghai University of Finance and Economics with a Bachelor's degree in Finance in 1998 and further obtained a Master of Business Administration degree from Donghua University in 2006. Mr. Su has years of diversified working experience in corporate internal management, investments, mergers and acquisitions, project financing, reorganization, and has in-depth knowledge in the internet industry. He has worked for Shanghai Pudong Road & Bridge Construction Co., Ltd (Shanghai Stock Exchange: 600284), Shanda Interactive Entertainment Ltd, etc. Mr. Su joined the Group in March 2010 and he is now responsible for the Group's strategy, investment, operation management and informatization.

As far as the Directors are aware, Mr. Su does not have any relationships with any other Directors, senior management, substantial Shareholders (as defined in the Listing Rules) or controlling Shareholders (as defined in the Listing Rules) of the Company.

MISCELLANEOUS

(1) The registered office of the Underwriter is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI. The correspondence address of the Underwriter is at Room 1401, Java Commercial Centre, 128 Java Road, North Point, Hong Kong. HSBC International Trustee Limited, being the trustee of a family trust set up by Mr. Liu for the benefit of his family members, through intermediate holding companies, River Road Investment Limited and Knight Bridge Holdings Limited, indirectly holds as to 100% of the issued share capital of Ever Novel. The settlor of this family trust is Mr. Liu. The directors of Ever Novel are Mr. Liu and Ms. Cheung Lo, Samantha. As at the Latest Practicable Date, Ms. Cheung did not hold any Shares, convertible securities, warrants, options or derivatives of the Company.

(2) The registered office of River Road Investment Limited is at Woodbourne Hall, Road Town, Tortola, BVI. It is owned as to 100% by HSBC International Trustee Limited, being the trustee of a family trust set up by Mr. Liu for the benefit of his family members. The settlor of this family trust is Mr. Liu. The director of River Road Investment Limited is Lion International Management Limited.

(3) The registered office of Knight Bridge Holdings Limited is at Woodbourne Hall, Road Town, Tortola, BVI. It is owned as to 100% by River Road Investment Limited. The director of Knight Bridge Holdings Limited is Mr. Liu.

(4) The registered office of Prime Century is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI. It is owned as to 80.20% by Ever Novel and as to 19.80% by Ms. Wang Gang. The directors of Prime Century are Mr. Liu and Ms. Cheung Lo, Samantha.

(5) The registered office of Grand Idea is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, BVI. HSBC International Trustee Limited, being the trustee of a family trust set up by Ms. Xie Yuanbi for the benefit of certain of her family members, through intermediate holding companies, Congenial Holdings Limited and Sunlight Star Assets Limited, indirectly holds as to 100% of the issued share capital of Grand Idea. The directors of Grand Idea is Mr. Wang Daiqiang.

(6) In the event of inconsistency, the English text of this circular and the accompanying form of proxy shall prevail over the Chinese text.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting ("**Meeting**") of A8 Digital Music Holdings Limited ("**Company**") will be held at 10:30 a.m. on Tuesday, 19 February 2013 at Units 3306-12, 33/F, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** subject to and conditional upon: (i) the passing of ordinary resolution numbered 2 as set out in the notice convening this meeting; (ii) the Executive (as defined in the Circular (as defined below)) granting the Whitewash Waiver (as defined in the Circular) to Ever Novel (as defined in the Circular) and the satisfaction of any conditions attached to the Whitewash Waiver granted; (iii) the Listing Committee of The Stock Exchange of Hong Kong Limited granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked the listing of, and permission to deal in, all the Rights Shares (as defined below) (in their nil-paid and fully-paid forms) by no later than the Prospectus Posting Date (as defined in the Circular); (iv) the filing and registration of all relevant documents with the Registrar of Companies in Hong Kong by no later than the Prospectus Posting Date; (v) the posting of the Prospectus Documents (as defined in the Circular) to Qualifying Shareholders (as defined below) on the Prospectus Posting Date; (vi) the Underwriting Agreement (as defined in the Circular) not being terminated by Ever Novel pursuant to the terms thereof on or before the Latest Time of Termination (as defined in the Circular); (vii) the delivery of the duly signed Director Undertakings (as defined in the Circular) to the Company; and (viii) compliance with and performance of all the undertakings and obligations of signatory of each of the Director Undertakings:

   (a) the Underwriting Agreement be and is hereby confirmed, approved and ratified;

   (b) the issue by way of rights ("**Rights Issue**") of not less than 952,564,752 ordinary shares of HK$0.01 and not more than 965,597,432 ordinary shares of HK$0.01 each in the share capital of the Company ("**Rights Shares**") to the shareholders ("**Qualifying Shareholders**") of the Company whose names appear on the register of members of the Company at the close of business on Wednesday, 27 February, 2013 ("**Record Date**") (or such other date as may be agreed in writing between Ever Novel and the Company) other than those Shareholders whose registered addresses as shown on the register of members of the Company are in any place outside Hong Kong and whom the directors of the Company ("**Directors**"), based on the enquiry made by the Company, consider it is necessary or expedient not to offer the Rights Shares to such Shareholders ("**Excluded Shareholders**") on account either of the legal restrictions under the laws of the relevant place(s) or the requirements of the relevant regulatory body(ies) or stock exchange(s) in those place(s), in the proportion of two Rights Shares for every existing share of the Company then held on the Record Date at the subscription price of HK$0.36 per Rights Share and otherwise on the terms and conditions set out in a circular of the Company dated 30 January 2013 ("**Circular**"), a copy of which has been produced to this meeting marked "**A**" and signed by the chairman of this meeting for the purpose of identification, be and is hereby approved;

(c) any one Director be and is hereby authorised to allot and issue the Rights Shares pursuant to or in connection with the Rights Issue provided that in the case of Excluded Shareholders, the Rights Shares shall not be allotted and issued to the Excluded Shareholders but shall be aggregated and issued to a nominee to be named by the Company and such Rights Shares shall be sold in the market as soon as practicable after dealings in Rights Shares in their nil-paid form commence and the proceeds of such sale (after deduction of expenses) of more than HK$100 will be paid pro rata to the Excluded Shareholders and the Company shall retain any individual amount of HK$100 or less;

(d) any one Director be and is hereby authorised to make such other exclusions or other arrangements in relation to the Excluded Shareholders as he/she may deem necessary or expedient and generally to do such things or make such arrangements as he/she may think fit to effect the Rights Issue; and

(e) any one Director be and is hereby authorised to do all such acts and things, to sign and execute all such further documents and to take such steps as he/she may in his/her absolute discretion consider necessary, appropriate, desirable or expedient to carry out or to give effect to or in connection with the Rights Issue and the Underwriting Agreement or any transactions contemplated thereunder."

2. "**THAT** subject to the Executive (as defined in the Circular (as defined below)) granting the Whitewash Waiver (as defined in the Circular) to Ever Novel (as defined in the Circular) and the satisfaction of any conditions attached to the Whitewash Waiver granted, the waiver pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers ("**Takeovers Code**") waiving any obligation on the part of Ever Novel and parties acting in concert with it to make a mandatory general offer to the holders of securities of the Company to acquire securities of the Company other than those already owned by Ever Novel and parties acting in concert with it which would otherwise arise under Rule 26.1 of the Takeovers Code as a result of the fulfillment of Ever Novel's underwriting obligations under the Underwriting Agreement (as defined in the Circular), the principal terms of which are set out in a circular of the Company to its shareholders dated 30 January 2013 ("**Circular**"), a copy of which has been produced to this meeting marked "**A**" and signed by the chairman of this meeting for the purpose of identification, be and is hereby approved and **THAT** any one director of the Company be and is hereby authorised to do all acts, deeds and things and to sign and execute all documents as he/she may, at his/her absolute discretion, deem necessary, desirable or expedient to carry out or to give effect to any matters relating to or in connection with the Whitewash Waiver."

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

Hong Kong, 30 January 2013

Head office and principal place of business in Hong Kong:
Suites 06-12
33/F, Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

Notes:

(a) Any member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his/her behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

(b) In the case of joint holders of a share, either in person or by proxy, in respect of such shares as if he/she were solely entitled thereto, but if more than one of such joint holders be present any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.

(c) To be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof, must be delivered to the office of the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

(d) Whether or not you propose to attend the meeting in person, you are strongly urged to complete and return the form of proxy in accordance with the instructions printed thereon. Completion and return of the form of proxy will not preclude you from attending the meeting and voting in person if you so wish. In the event that you attend the meeting after having lodged the form of proxy, it will be deemed to have been revoked.

(e) In compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Code on Takeovers and Mergers, all resolutions to be proposed at the meeting convened by this notice will be voted on by way of poll.

As at the date of this notice, the Board comprises the following Directors:

Executive Directors:
Mr. Liu Xiaosong *(Chairman)*
Mr. Lu Bin

Independent non-executive Directors:
Mr. Chan Yiu Kwong
Mr. Zeng Liqing
Ms. Wu Shihong