
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Immediately after completion of the Share Offer (assuming the Over-allotment Option is not exercised at all), the Capitalization Issue and the issue of [●] Shares as the Remuneration Shares (assuming the Offer Price is the mid-point of the range i.e. HK\$[●]) and without taking into account the issue and allotment of Shares pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme and options to be granted under the Share Option Scheme, the Controlling Shareholders will control the exercise of voting rights of [●]% of the Shares eligible to vote in the general meeting of the Company.

Business retained by the Controlling Shareholders

The Controlling Shareholders have retained substantial ownership of the following existing business outside of the business of the Group (“**Excluded Businesses**”), which has the same shareholding structure of A8 Music prior to the Reorganization:

YY Music Database (“YYMD”)

YYMD is a solution that enables a user to search his/her favorite songs/music according to criteria specified by such user and manage his/her favorite songs or music.

YYMD categorizes each individual song through a wide variety of attributes. These attributes include, among others, identity of artists (including singers and song-writers etc.), tempo, language, style, date of publication and different types of emotions (such as happiness, love, sadness, blue and moodiness) (“**Attributes**”). As at the Latest Practicable Date, YYMD has approximately 170,000 songs which had been previously released by the record labels and more than 8.5 million related Attributes with an average of 50 Attributes per song.

A user can utilize this database by entering the name of his/her favorite song or artist, or a few key description of his/her mood. YYMD will, through its music intelligence algorithm, search its entire database of categorized songs to find relevant songs that match with the user’s criteria.

YYMD also enables users to identify and categorize songs and music by albums and artists. It also recommends other songs/music in the database based on the requested songs/music to its users. For example, a user can use a specific song/music that he/she likes as a “seed” which helps the user to search for other songs/music in the YYMD that are similar to the “seed” in terms of certain Attributes. As a result, a user can gradually build up and categorize its personal database based on the Attributes of the specific song/music that he/she likes.

YYMD does not own any copyrights of the songs stored in its database, instead, it gets licences from relevant record labels. YYMD or the manufacturers of equipment in which YYMD is installed will enter into licence agreements with relevant record labels for the use of their songs in YYMD in the equipment and the terms will be based on commercial negotiation between the parties. As YYMD is still at its development and trial stage, therefore no such licence agreement has been entered into with record labels.

YYMD has a website at www.yy.com which acts as a window for the user to access the YYMD.

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YYMD, through its website, collects and stores all its users’ behavior and preferences, based on, among others, the kind of services they look for and the Attributes they usually choose. YYMD is then able to analyze the users’ behavior and to revise and personalize the users’ play list based on their preferences. In addition, YYMD itself could be improved through the collection of data in relation to the users’ behavior. In general, www.yy.com is the interface for YYMD’s music intelligence (collectively the “**Intelligence Algorithm Technology**”).

YYMD is a solution provider and it intends to obtain revenue from licence fees and will cooperate with home audio entertainment system manufacturers, automobile manufacturers and mobile and portable music device manufacturers.

Before YYMD was started, it was the plan of the Shareholders that this business would be developed and operated independently from the Group due to their difference in many aspects as described below. A new entity would be incorporated to operate this business and the Group would operate YYMD on behalf of this new entity before its incorporation in consideration of a monthly management fee of RMB150,000, which was determined based on the amount of administrative expenses incurred by the Group for this arrangement. For the three years ended 31 December 2007, the Group charged management fees of Nil, RMB1.8 million and RMB0.9 million and incurred expenses of approximately Nil, RMB[18.9] million and RMB[6.4] million, respectively. The Directors confirm that the Group has charged no management fee on YYMD since 1 July 2007. All the expenses paid on its behalf were settled in February 2008 and the Group has no longer paid expenses on behalf of YYMD since then.

Clear delineation of businesses

The Directors believe that there is clear delineation between the business of the Group and those of YYMD. The exclusion of YYMD from the Group was determined in view of the difference in the operations and model between the two businesses and the fact that YYMD is still very premature and may require continuous input of substantial amount of investments without foreseeable returns in the near future. The Directors are not aware of any current plan of the Controlling Shareholders to inject any of the Excluded Businesses into the Company.

The business of the Group can be delineated from YYMD in the following key aspects:

- *The Group and YYMD are in different industrial sectors and focus on different markets*

The Group is an integrated digital music company and it sells music content to the mobile phone subscribers in the PRC in the form of ringtones, RBTs and IVR Music as telecommunications value-added services through the mobile wireless network in the PRC. It competes with other value-added service providers in the PRC including Tom Online Inc, Linktone Ltd. and Tencent Holdings Limited for the mobile phone subscriber market in the PRC.

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YYMD has established a database of commercially recorded and released songs and plans to obtain revenue from licence fee and revenue shared with home audio entertainment system manufacturers, automobile manufacturers and mobile and portable music device manufacturers. The Directors consider this business model a new concept in the PRC market and such database can be utilized by any business which can adopt the database into their products or services for the general consumer market in the PRC.

The Group and YYMD do not share one music database and instead they maintain separate music databases for their respective business. Some of the songs of the traditional music record labels promoted by the Group through the mobile wireless network are also in the music database maintained by YYMD. However, for original independently produced music content, the users of the Group's UGC platform can only download full track songs of such original independently produced music content through third-party websites or the mobile wireless network via A8Box. The Group does not provide any streaming and downloading service for songs from the traditional music record labels.

- *The Group and YYMD have different products*

The products of the Group consist of music content in the form of ringtones, RBTs and IVR Music and non-music content such as games, wall-papers, entertainment news and jokes. All such products are provided to the mobile phone subscribers as telecommunications value-added services through the mobile wireless network. The Directors consider this is a business to customer model.

The products of YYMD comprise a database of commercially recorded and released music content. The database are intended for sales to businesses which can adopt them into their products or services. The Directors consider that this is a business to business model.

- *The Group and YYMD have different customers and end-users*

The customers of the Group are the mobile network operators in the PRC and the end-users of the telecommunications value-added services provided by the Group are the mobile phone subscribers in the PRC. The Group directly delivers its music content and other services to the mobile phone subscribers and the mobile network operators are responsible for recording and settlement of the relevant revenue.

The customers of YYMD are businesses which can adopt the database into their products and services such as home audio entertainment system manufacturers, automobile manufacturers and mobile and portable music device manufacturers. The database are not intended for direct sales to consumers and the businesses which purchase the database will sell their products or services directly to the consumers instead.

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- *The Group and YYMD focus on different music content in a different way*

The Group focuses on the promotion and sales of original independently produced music content collected through its UGC website and the focus is to identify music content with potential of popularity among the public in the PRC. The revenue of the Group is dependent on the popularity of its music content and therefore the Group's resources devoted to different music content are different.

YYMD focuses on establishing a database of commercially recorded and released songs and the focus is to cover as many songs as possible. Each song is given different attributes for conducting searches of the database and the resources committed to the music content are generally the same. The revenue of YYMD is not solely dependent on to the popularity of the music content in its database.

- *Other different features in the business of the Group and YYMD*

The Group is an integrated digital music company and it mainly collects, promotes and sells the original independently produced music content to the mobile phone subscribers in the PRC. The Group cooperates with the artists in the promotion of the music content and share the revenue generated from the sales of the music content with the artists. The Directors consider the strengths of the Group are its promotion and sales network for music content through the mobile wireless network in the PRC.

YYMD does not promote or sell individual music content nor does it need the cooperation, nor share revenue, with the artists. The Directors consider that the strengths of YYMD comprise the mass quantity of different music content in its database and the technology employed in the user-interface.

- *The operations and management of the Group and YYMD are separated*

The business of the Group and YYMD are operated and managed by a separate and independent team. Save for Mr. Liu Xiaosong, who is the executive Director, the Chairman and chief executive officer of the Company and the non-executive chairman of YYMD, none of the senior management of the Group is working for YYMD. The Group and YYMD employ their employees separately, are situated at different office premises and do not share computer equipment or software or other resources. Their business operations are also separate and they have their own major websites and have separate databases [and servers] to store their data.

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The Directors confirm that, as at the Latest Practicable Date, YYMD is still at its development and trial stage and no concrete revenue model or pricing of its products have been formulated. The Directors understand that YYMD will be officially launched to the market between the third and fourth quarter of 2008.

[The Directors, including the independent non-executive Directors, are of the view that it is to the best interests of the Company and the Shareholders not to include YYMD in the Group.]

Investment retained by Mr. Liu Xiaosong

Mr. Liu, an executive Director and the chairman and chief executive officer of the Company, was one of the founders of Tencent Holdings Limited ("THL"), which is a leading provider of Internet services and mobile value-added services in the PRC. As at the Latest Practicable Date, Mr. Liu has no management role in THL and holds less than 5% equity interest. Such equity interest is Mr. Liu's personal investment and is unrelated to the business of the Group and Mr. Liu has no plan to inject such equity interest into the Group. There is no overlapping in management, business or financial operation between the Group and THL and there was no transaction between the parties during the Track Record Period nor is there any planned cooperation in the future. The Directors consider Mr. Liu's equity interest in THL to be completely unrelated and independent from his role in the Group.

Independence of the Group from the Controlling Shareholders

The Directors believe that the Group is able to carry on its business independently of the Controlling Shareholders after Listing.

Management independence

Each of the Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interests of the Group and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and its directors or their respective associates, the interested Director shall abstain from voting at the relevant board meetings of the Company in respect of such transactions and shall not be counted in the quorum.

Having considered the above factors, and in light of the fact that the Controlling Shareholders [have signed] a deed of non-competition in favor of the Group, the Directors are satisfied that they are able to perform their roles in the Group independently and are of the view that they are capable of managing the business of the Group independently after Listing.

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Operational independence

As a result of the restrictions on the Group’s business set by the PRC laws and in order for the Group to be able to carry on its business in the PRC, the Group has entered into a series of structure contracts with Huadong Feitian and Kwaitonglian and their respective shareholders respectively. These structure contracts enable the Group to exercise effective control over these entities for the Group’s business operation in the PRC. Mr. Liu Xiaosong, an executive Director and the chairman and chief executive officer of the Company, and Mr. Lin Yizhong (alias Lin Hai), an executive Director and the chief operations officer of the Company, hold a controlling stake in these two entities respectively. The Directors do not consider Mr. Liu’s and Mr. Lin’s equity interests in Huadong Feitian and Kwaitonglian will affect the operational independence of the Group as these entities are legally bound by the structure contracts for the Group to exercise control over their operations. The Directors consider that the Group is able to maintain relationships with its customers and suppliers without the assistance of the Controlling Shareholders. The Group will not share any resource in its operations with the Controlling Shareholders.

Financial independence

The Group has an independent financial system and makes financial decisions according to its own business needs. [The Directors confirm that as at the Latest Practicable Date, loans provided by Mr. Liu Xiaosong to the Group have either been settled in full or capitalized.]

NON-COMPETITION UNDERTAKING

Each of the Controlling Shareholders, namely Mr. Liu Xiaosong, Prime Century, Ever Novel and Grand Idea, has entered into a deed of non-competition in favor of the Company (for itself and the benefits of other members of the Group), pursuant to which he/it has undertaken to the Company that he/it would not, and would procure that his/its associates would not, during the restricted period set out below, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time (the “**Restricted Business**”). Such non-competition undertaking does not apply to:

- (a) any opportunity to invest, participate, be engaged in and/or operate with a third party any Restricted Business has first been offered or made available to the Company in writing, and at the request of the Company, the offer should include: (i) terms of offer between the Company and such third party, or (ii) terms for the Company to engage in the Restricted Business with the Controlling Shareholders (or any of them) and/or on their associates, and the Company, after review and approval by the independent non-executive Directors, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business with such third party or together with Controlling Shareholders (or any of them) and/or their associates,

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provided that the principal terms by which any Controlling Shareholder (or his/its relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favorable than those disclosed to the Company. The Company will have 60 days to consider the opportunity and can extend a further 30 days; or

- (b) having interests in the shares of a company which operates business(es) that compete(s), directly or indirectly, with the businesses of the Group provided that:
 - (i) the Controlling Shareholders (or any of them) or his/its associate or nominee, whether singly or jointly, is not the single largest shareholder or group of shareholders of such company; and
 - (ii) none of the Controlling Shareholders or his/its associate or nominee control the appointment of the majority member of the board of directors of such company; and
 - (iii) none of the Controlling Shareholders or his/its associate or nominee has any executive role or executive post in such company; and
 - (iv) such company does not operate any Restricted Business when the Controlling Shareholders (or any of them) or his/its associate or nominee acquire the interests in such company.

The "restricted period" stated in the deed of non-competition refers to the period during which:

- (i) the Shares of the Group remain listed on the Stock Exchange;
- (ii) regarding any member of the Controlling Shareholders, so long as he or his associates directly or indirectly holds an equity interest in the Group; and
- (iii) the Controlling Shareholders jointly are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company.

CORPORATE GOVERNANCE MEASURES

The Company will adopt the following measures to manage the conflict of interests arising from YYMD and to safeguard the interests of the Shareholders:

- (i) the independent non-executive Directors will review, on an annual basis, the compliance with the undertaking by the Controlling Shareholders under the deed of non-competition including the right of first refusal under paragraph (a) in the paragraph headed "Non-competition undertaking" in this section;

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- (ii) the Controlling Shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the deed of non-competition;
- (iii) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the undertaking of the Controlling Shareholders, including decisions reached in respect of first rights of refusal referred to in paragraph (a) in the paragraph headed “Non-competition undertaking” in this section, under the deed of non-competition in the annual reports of the Company; and
- (iv) the Controlling Shareholders will make an annual declaration on compliance with their undertaking under the deed of non-competition in the annual report of the Company.

DIRECTORS’ COMPETING BUSINESS

[Save as disclosed in the paragraph headed “Investment retained by Mr. Liu Xiaosong” in this section, each of the Directors has confirmed to the Company that he or she is not engaged in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group. The terms of the service contracts for the executive Directors and the independent non-executive Directors and the appointment letters for non-executive Directors will have relevant provisions to restrict the Directors from participating in business which competes or is likely to compete with the business of the Group.]