

---

## RISK FACTORS

---

### RISKS RELATING TO THE GROUP

#### **Reliance on or risks in relation to major mobile operators, namely China Mobile Group and China Unicom Group**

The Group offers its services to mobile phone subscribers through two major mobile operators in the PRC, namely China Mobile Group and China Unicom Group. The Group derived approximately 86.3% of its revenue from its collaboration with China Mobile Group and 13.4% of its revenue from its collaboration with China Unicom Group for the year ended 31 December 2007. If either China Mobile Group and/or China Unicom Group were to terminate its cooperation with the Group, it would be impossible for the Group to find another appropriate mobile operator of a similar scale as a replacement. Any major alteration to the Group's current cooperation mode with China Mobile Group and China Unicom Group, or even loss of its business relationship with either of these major mobile operators may materially adversely affect the operations and financial performance of the Group.

– *Term of agreements*

Currently, the agreements entered into between those structured subsidiaries and the mobile operators and/or their provincial affiliates are non-exclusive and are of a limited term (generally one year for China Mobile Group and one to two years for China Unicom Group). Based on the records of the Group, most of these agreements are annually renewed. However, such kind of renewal is not guaranteed and new agreements may not be agreed upon in the future. Failure to have such agreements renewed or for new agreements to be entered into may result in an adverse effect on the business and operations of the Group.

– *Operations*

In terms of operations, the Group relies on the mobile operators in various ways. The Group must obtain approval from China Mobile Group and China Unicom Group with respect to each service offered to the mobile phone subscribers and the pricing for such service. There is no assurance that such approval will be granted and/or granted in a timely manner. Failure to obtain or delay in obtaining such approvals could place the Group at a disadvantageous position in the market and adversely affect the Group's revenue and profitability. Besides, the Group relies on China Mobile Group and China Unicom Group to maintain accurate records of the fees paid for the Group's services by mobile phone subscribers. The Group does not bill the mobile phone subscribers directly and therefore it relies on the accuracy and efficiency of the billing systems and records kept by the mobile operators to record the volume of mobile music services provided, charge the mobile phone subscribers, collect payments and remit to the Group its portion of the fees. The Group commenced its business cooperation with China Mobile Group since its establishment in 2000 and with China Unicom Group in 2001. During the Track Record Period, the Group experienced occasional differences in revenue calculation with China Mobile Group and China Unicom Group. When major differences in such revenue calculation are encountered, the Group would request checking the data record of the operator against the internal records kept by the Group. The Directors consider such requests for

---

## RISK FACTORS

---

checking of internal records for revenue calculation have not been frequent and do not relate to substantial amount of the Group's transactions with either China Mobile Group or China Unicom Group. The business and results of operations of the Group could be adversely affected if any mobile operators miscalculate the revenue generated by the services provided by the Group.

– *Compliance with policies*

Both China Mobile Group and China Unicom Group have a wide range of policies and procedures regarding customer services, quality control and other aspects of the wireless value-added services industry. The mobile operators enforce their customer service policies from time to time. This has resulted in a number of strict penalties being imposed on many wireless value-added services providers. For example, China Mobile Group imposes penalties on service providers which have violated its internal rules regarding pre-set menu for wireless value-added services in mobile phones on their own. In June 2007, the Group experienced a deduction of a substantial amount of points for its MMS services as a result of such violation. Details of such deduction are set out in the paragraph headed "Customers" in the section headed "Business" in this prospectus. Therefore, any future enforcement against the Group by the mobile operators of their policies or guidelines in the event that the Group's operation has deviated from such policies or guidelines could result in the incurrence of additional charges by the Group or even prohibition from offering certain existing services or new services by the Group. This could in turn materially and adversely impact the business operations of the Group and profitability of the Group.

– *Provision of own wireless value-added services as service providers*

According to data published by the MII, there were approximately 547.3 million mobile phone subscribers in the PRC in 2007. According to each of their annual reports for the year ended 31 December 2007, China Mobile Group and China Unicom Group had a market share of approximately 69.3% and approximately 29.7% respectively. Given their dominant market positions, the business of the Group may be adversely affected if either China Mobile Group or China Unicom Group or both were to decide to provide their own wireless value-added services as a service provider, or if they were to provide their own mobile music services as a service provider to their mobile phone subscribers, this will lead to competition with the Group. They may also change the cooperation mode with the Group or reduce the resources available for the Group's business in their wireless networks if they decide to commence their own wireless value-added service business as a service provider. In any such case, the Group's business may face enhanced competition and there is a risk that, under such circumstances, the Group may be partially or fully denied access to the services of such operators.

---

## RISK FACTORS

---

### Reliance on the Contractual Arrangements

Due to regulatory limitations prohibiting foreign investors from holding a controlling stake in entities which are engaged in the provision of telecommunications value-added services in the PRC, the Group has been conducting some of its business in the PRC through Huadong Feitian, Kwaitonglian and their respective subsidiaries, branches and representative offices. Neither the Company nor its subsidiaries hold any equity interest in any of such entities, branches and representative offices. The Company maintains effective control over these entities through the Contractual Arrangements that Cash River has entered into with Huadong Feitian, Kwaitonglian and their respective shareholders, through which the Company obtains substantially all of the profits of such entities in the form of consulting and service fees. These arrangements are not as secure as direct equity and may not be as effective in providing control over these entities as direct ownership. Details of Contractual Arrangements are set forth in the paragraph headed “Structure contracts” in the section headed “History and development” in this prospectus.

There can be no assurance that the interpretation by the Company’s legal advisers as to PRC laws of the effectiveness of the Contractual Arrangements is in line with the interpretation of the PRC government authorities. Nor can there be any assurance that all or some of the Contractual Arrangements will not be deemed by the PRC government authorities to be in violation of the PRC laws. Any determination by the MII or other competent authorities in the PRC that the Contractual Arrangements on any part thereof is not in compliance with any new interpretations or newly issued laws, regulations, rules or policies could result in the Group being required to restructure its organizational structure and operations in the PRC and, thus, may result in material disruption of the Group’s business, diversion of management attention and the incurrence of substantial costs. Moreover, if the Contractual Arrangements are found to be in violation of the PRC laws, rules or regulations, the relevant PRC regulatory authorities will have discretion to take action against Huadong Feitian or Kwaitonglian, their respective shareholders or Cash River for such violation, including unwinding the Contractual Arrangements or prohibiting the Group from operating its business in the PRC. The PRC government may revoke the Telecommunications Value-added Services Operation Licences of Huadong Feitian and Kwaitonglian, require them to discontinue or restrict their operations, restrict the Group’s right to collect revenues or take other regulatory or enforcement actions against the Group that could have a material adverse effect on the business, financial condition and results of operations of the Group.

Given that the Group has effectively controlled these entities during the Track Record Period, the financial results of these entities are accounted for by the consolidated accounting method. Their operating results are included in Appendix I to this prospectus.

The Company controls Huadong Feitian and Kwaitonglian, together with their respective subsidiaries, branches and representative offices through the Contractual Arrangements. If any of these entities fails to comply with, or refuse to renew, these Contractual Arrangements, the business operations of the Group in the PRC might be disrupted to a material extent and the Company’s revenues could decrease significantly. In addition, if both or either of Huadong

---

## RISK FACTORS

---

Feitian and Kuaitonglian fail to perform or violate any or all of the Contractual Arrangements, the Group would have to rely on legal remedies under the PRC legal system to enforce these arrangements, which may be less effective than in other jurisdictions. Any legal proceedings could result in disruption to the Group’s business in the PRC and result in substantial costs to the Group. There can be no assurance that the results of such legal proceedings would be satisfactory to the Group. In addition, these contracts expire at a specific time, and Cash River may have difficulty in renewing these contracts on a timely basis and in forms acceptable to the Group if the Company’s relationship with Huadong Feitian and Kuaitonglian were to deteriorate or due to other reasons.

### **Any shortage of UGC provided to the Group may adversely affect the business performance of the Group**

The Directors consider that the Group distinguishes itself from other mobile music-related telecommunications value-added service providers by its focus on original independently produced music content which are uploaded by artists to its UGC platform. There can be no assurance that the supply of such UGC will be steady or sufficient for the development of the Group or of a standard acceptable to the Group and/or consumers in the future, especially with the emergence of competitors having the same or similar strategy as that of the Group. If the Group fails to attract sufficient original independently produced music content from artists that reach the Group’s standard, it may not be able to generate enough new mobile music content for, among others, its ringtones and RBTs, thereby leading to a decline in the Group’s competitiveness which in turn may negatively affect its business performance.

### **Failure to identify music content with potential for popularity may affect the Group’s business**

The Directors believe that the success of the Group depends largely on the Group’s ability to identify the UGC uploaded to its www.a8.com platform with potential for popularity. Currently, the Group has a quality control system for its selection of the original independently produced music content in which the UGC will first be screened by staff specifically designated for such task for merit and will then be categorized by nature and style. Such selected and categorized music content is then stored in a platform for rating by a dedicated team comprising staff from various different departments of the Group based on various criteria set out by the Group, such as easiness of singing, rhythm, sympathy, style and performance technique. Songs that meet the Group’s standard will then be selected as targets for promotion by the Group. However, music fashion is fast-changing. In the event that the Group fails to anticipate, gauge, identify and react to the changing demands of the consumers in the future or fails to identify any song which becomes a mainstream hit for a period of time, the demand for the Group’s services may decline and artists may not be willing to further submit original independently produced music content to the Group for publication purposes.

There can be no assurance that the Group will be able to continue to anticipate, gauge, identify and react to changing consumers’ demands in the future.

---

## RISK FACTORS

---

### **The Group may face increasing competition which could reduce its market share and adversely affect its financial condition and results of operations**

There is increasing competition in the mobile music market in the PRC. The Group competes with its competitors primarily on basis of the range of content and services, quality of service and customer support, timing of services offered, technologies being applied, business partners and marketing channels. In addition, the Group also competes with other service providers in terms of retaining and recruiting experienced and talented employees. If the Group is not able to maintain its competitiveness in respect of the foregoing, the business operations, market share and financial condition of the Group may be adversely affected.

### **The Group may be liable for the provision of improper or illegal content**

The Group may incur liability in relation to the provision of mobile music-related services, such as ringtones and RBTs, or non-music-related services, such as wallpapers or games or jokes, if the content of such services have infringed the copyright or other intellectual property rights of others or are regulated or prohibited by certain laws and regulations, amongst others, mainly including the Trademark Law of the PRC (《中華人民共和國商標法》) and its implementation rules, the Copyright Law of the PRC (《中華人民共和國著作權法》) and its implementation rules, and relevant regulations set forth in the section headed “Regulatory overview” in this prospectus. Other laws that may be applicable include, but not limited to, those regulating pornography. The Group could be found liable under such laws for the supply, delivery or aiming at the supply, delivery, production or possession of regulated or prohibited information or content. This may result in civil and/or criminal penalties including a fine or other sanctions or the loss of the Group’s right to provide its services. Any such liability may have an adverse effect on the financial position, the operations and performance and prospects of the Group. The Group does not currently maintain any insurance in respect of liability arising from the content of its services and any significant liability claim could have a material adverse effect on the Group.

### **The Group may not be able to adequately protect its intellectual property rights in relation to its services**

The business of the Group relies on the protection offered by intellectual property rights laws currently in effect in the PRC and its contractual arrangements with artists, employees, business partners and others to protect such intellectual property rights. However, the validity, enforceability and scope of protection of intellectual property rights in the music related industries in the PRC are still evolving. The development of the online music market in the PRC has been seriously affected by piracy and the availability of free downloads. The relevant laws may not fully protect intellectual property rights to the same extent as the laws of some other jurisdictions. Every artist must agree to the terms of an electronic licensing agreement with the Group whereby the Group will be granted with certain rights to make use of the music content for its value-added services before such artist can upload the music content to the Group’s UGC platform and the Group will enter into formal written agreements with artists whose songs are selected after the screening process. There is no assurance that the courts in

## RISK FACTORS

---

the PRC will recognize and enforce such electronic licensing agreements. Accordingly, any piracy, infringement of intellectual property rights or unauthorized use of the content provided to the Group by third parties may adversely affect the Group's business and reputation. Litigation may also be necessary in the future in order for the Group to enforce the protection of its intellectual property rights, which could result in substantial costs to the Group and diversion of resources, and have a material adverse effect on the business, financial condition and operations of the Group. Moreover, the availability of free downloads of wireless value-added services may affect the sales of the Group's services and will adversely affect its business performance.

### **The Group's ability to generate revenue could be adversely affected if the Group fails to promptly respond to the trend of the mobile music market and the services provided by the Group cannot fully satisfy the demand of the mobile phone subscribers**

The mobile music market in the PRC has evolved rapidly over the past few years, with the introduction of new and advanced wireless value-added services, development of new technologies and adaptation of strategies by existing market players. It is expected that such evolving trends will continue, and consequently the Group will need to continue to adapt new strategies to successfully compete in this market. There is no assurance that the Group will be able to correctly foresee the future trend and formulate strategies of the mobile music industry and failure to meet the new and evolving demand of the fast-changing music industry in the PRC will adversely affect the Group's business performance.

Furthermore, a recession in the global economy, Asia or the PRC or uncertainties regarding future economic prospects of the PRC could affect consumer spending habits and have an adverse effect on the business, operating results and financial condition of the Group to a material extent.

### **The Group has no business insurance coverage**

The insurance industry in the PRC is still at an early stage of development. Insurance companies in the PRC offer limited business insurance products, and do not, to the Directors best knowledge, offer business liability insurance. As a result, the Group does not have any business liability insurance coverage for its business operations. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources of the Group.

### **Reliance on key management personnel**

The Group's performance and success is, to a significant extent, attributable to the vision and leadership of Mr. Liu Xiaosong, the founder, the chairman and chief executive officer of the Company and the contribution of several key executives, including Mr. Lin Yizhong (alias Lin Hai), the chief operations officer of the Company. In the event that any of Mr. Liu or Mr. Lin or any other member of the senior management team was to leave the Group, and the Group was not able to engage a suitable replacement on a timely basis, the Group's business, its operations and financial condition may be materially adversely affected.

---

## RISK FACTORS

---

### **The historical dividends of the Group should not be treated as an indicator of future dividend policy**

During the Track Record Period, the Group has not declared any dividend. In [●] 2008, the Group declared a special dividend of RMB100 million, representing approximately 55.1% of the net asset value of the Group as at 31 December 2007, to its then shareholder. Such dividends were settled on [●] 2008. The payment of such special dividend has reduced the Group's cash balance and working capital by RMB100 million. There is no assurance that dividends of similar amounts or at similar rates will be paid in the future. Further discussion on the Group's dividend policy is set out in the section headed "Financial information" in this prospectus. Past dividends should not be used as a reference for the Company's dividend policy nor used as a basis to forecast dividends payable in the future.

### **The Group is subject to credit risk in respect of its accounts receivable**

The customers of the Group usually settle the amounts due to the Group within a period of 30 days to 120 days from the date the relevant invoice is issued by the Group.

As at 31 December 2005, 2006 and 2007, accounts receivable of the Group amounted to approximately RMB42.9 million, RMB37.6 million and RMB64.8 million respectively, which accounted for 24.1%, 16.2% and 22.3% respectively of the Group's total assets as at 31 December 2005, 2006 and 2007 respectively. The Group has a concentration of credit risk of trade and other receivables due from the Group's mobile operator partners, namely China Mobile Group and China Unicom Group. Should such mobile operator partners fail to settle such receivables in full or there is a change in the payment policy of such mobile operators resulting in a longer settlement period for the amount due from such operators, the Group's financial condition and profitability could be adversely affected.

The Group cannot assure that the credit control policies and measures implemented by it are adequate in protecting the Group against material credit risks. Moreover, should the Group's customers be unable to pay in full for any reason, the Group's profit and cashflow will be adversely affected. Any delay in the payment by customers may also adversely affect the Group's operations and financial position. The Group may have to sustain legal costs in pursuing unsettled invoices, a process which is time-consuming and may be affected by a variety of factors including any counterclaim from such non-paying customers.

### **The Group's gross profit margin may continue to decrease, affecting its competitiveness**

For the three years ended 31 December 2007, the gross profit margin of the Group decreased from approximately 53.6% to 49.3% and to 45.0% which was mainly due to the increase in revenue share to business alliances. There is no assurance that the trend of increasing in revenue share to business alliances will not continue to impact the gross profit margin of the Group, nor is there any assurance that the effect of this trend will not outpace the increase in the revenue of the Group. As a result, the financial condition of the Group may be adversely affected by the decreasing gross profit margin.

---

## RISK FACTORS

---

### **The Group’s overall reputation may be damaged as a result of improper activities by its structured subsidiaries**

The Group operates, through the Contractual Arrangements with Huadong Feitian, Kwaitonglian and their respective shareholders, in various regions in the PRC. In the event that any of the branches of Huadong Feitian or, as the case may be, Kwaitonglian were to commit any improper activities in such regions and news in relation of such improper activities were to be widely spread through the media, the Group’s reputation may be adversely affected and such damage in reputation may also adversely affect the Group’s business and performance as a whole.

### **The Group may not be able to renew the leases for its office premises or staff quarters on favorable terms**

All of the Group’s office premises and staff quarters are located at properties leased from Independent Third Parties. There is no assurance that the leases for these office premises and staff quarters will be renewed on expiry or if renewed, on terms and conditions which are acceptable or favorable to the Group. If such leases are not renewed or cannot be renewed on terms which are acceptable to the Group, the Group will have to relocate its office premises and staff quarters and if the Group is unsuccessful in doing so, the Group’s business, operating results and financial condition may be adversely affected.

### **Failure to provide proper title documents by the landlords for some of the Group’s leased properties in the PRC**

As at the Latest Practicable Date, the Group had a total of 33 leased properties in the PRC mainly for the purposes of offices and staff quarters. All of such properties are leased from Independent Third Parties. In respect of five of these properties, the lessors have not provided the Group with sufficient document to evidence their respective authority to enter into the relevant leases.

If any dispute were to arise as to the legal title of any of such leased properties and/or if the Group’s right to occupy the properties were to come into question, the Group may be required to be vacated from such properties and relocate elsewhere. As a result, the business operations of the Group may be adversely affected if the aforementioned relocation cannot be completed efficiently and on a timely basis.

### **[Trust arrangements for equity interests in Huadong Feitian and Kwaitonglian are subject to risk of unenforceability**

During the Track Record Period and as at the Latest Practicable Date, Mr. Liu Xiaosong has appointed a number of nominee shareholders to hold equity interests in Huadong Feitian and Kwaitonglian on his behalf. Such arrangements may be unenforceable against third parties with no knowledge of the existence of such arrangements or creditors of the nominee shareholders under the applicable PRC laws and regulations. Under such circumstances, Mr.

---

## RISK FACTORS

---

Liu Xiaosong would be unable to control the voting rights in the general meeting of Huadong Feitian and Kuaitonglian and having such third parties or creditors as the shareholders of Huadong Feitian and Kuaitonglian may affect the operation of the Contractual Arrangements and therefore adversely affect the operations of the Group.]

### **The Group undertook and will continue to undertake equity investments and such investments may be unsuccessful**

The Group had cash and cash equivalents of approximately RMB131.3 million as at 31 December 2007, around 2.1% of which were invested into a portfolio of securities that were listed in the PRC in 2007. As at 31 December 2007, the portfolio had an unrealized gain of approximately RMB[2.9] million. The Group's investment policy is to invest, with an upper limit of no more than 10% of cash and cash equivalents of the Group from time to time, into shares offered under initial public offerings and not to hold the securities for more than one year. The Group plans to continue to undertake such kind of equity investments, which may expose the Group to certain market risks. The Group's inability to maintain positive return from such investments or to generate sufficient revenue to offset the costs and expenses of such investments will adversely affect the Group's financial condition and operations.

## **RISKS RELATING TO THE INDUSTRY**

### **Unexpected network interruptions, security breaches or computer virus attacks could have a material adverse effect on the business, financial condition and results of operations of the Group**

Any failure to maintain the satisfactory performance, reliability, security and availability of the Group's network infrastructure may cause significant harm to the reputation of the Group and its ability to attract and retain users. Major risks involved in such network infrastructure include, among others, (1) any break-downs resulting in a sustained shutdown of all or a material portion of the Group's servers; and (2) any system failures attributable to unauthorized access to the systems causing loss or corruption of data or malfunctions of software or hardware.

The network systems are also vulnerable to damage from fire, flood, power loss, telecommunications failures, computer viruses, hackings and similar events. Disruption may also be caused as a result of high level of user flow, but such disruption is usually of a short duration. Any network interruption of the Group's services or deterioration in the quality of access to such services could reduce user satisfaction and therefore potentially lower the competitiveness of Group's business. In addition, any security breach caused by hacking or unauthorized access to information or systems causing intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, and the inadvertent transmission of computer viruses could have a material adverse effect on the Group's business, financial condition and its results of operations of the Group. The Group does not maintain insurance policies covering losses relating to the systems and does not have business interruption insurance and any disruption of its network system would impose a material adverse effect on the Group.

---

## RISK FACTORS

---

### **Any significant restructuring of any segment of the telecommunications industry in the PRC could adversely affect the business operations of the Group**

The PRC government has extensive involvement in determining the structure and strategic direction of the telecommunications industry in the PRC. During the development of this industry, changes in government policy have resulted in major restructurings of the telecommunications operators, including the establishment of new operators and the combination of all or part of existing operators. Any further significant restructuring of any segment of the telecommunications industry in the PRC, including the status of China Mobile Group, China Unicom Group or any other mobile operators in the PRC and the potential combination of the mobile operations of various mobile operators in the PRC, could adversely affect the business operations of the Group.

### **The operations of the Group's business requires certain specific licences and permits**

The provision of wireless value-added services in the PRC is subject to the regulations of the MII, the MOC and other relevant authorities in the PRC, which are responsible for formulating regulations and granting of licences to appropriate Internet content providers and service providers. In order to operate the business of the provision of wireless value-added services, the relevant structured subsidiaries of the Company have to possess the relevant licences, including but not limited to, the Telecommunications Value-added Services Operation Licence (《增值電信業務經營許可證》) and the Certificate for Use of Access Code of Short Message Service (《短消息類服務接入代碼使用證書》). In addition, Huadong Feitian, one of the structured subsidiaries, is required to obtain approval for its Internet publishing business in accordance with the requirements under the Provisional Regulations for the Administration of Internet Publishing (《互聯網出版管理暫行規定》), approval for its Internet electronic bulletin business in accordance with the requirements under the Regulations for the Administration of Internet Electronic Notice Services (《互聯網電子公告服務管理規定》) and approval for its streaming and downloading services in accordance with the requirement under the Internet Visual/Audio regulations. Huadong Feitian has applied and obtained approval from the Administration of Press and Publication of Guangdong Province in December 2007 and is in the process of applying for the licence from the General Administration of Press and Publication of the PRC for the approval of its Internet publishing business. However, such approval has not yet been granted by the relevant authority. As advised by the Company's legal advisers as to PRC laws, in the event that Huadong Feitian is found having contravened the Provisional Regulations for the Administration of Internet Publishing (《互聯網出版管理暫行規定》), the relevant Internet publishing business may be suspended, the major equipment in connection with such business be seized and Huadong Feitian will be subject to a maximum penalty of 10 times of the revenue attributable to such business. No penalty is expected because, as confirmed by the Directors, no revenue has been generated from such Internet publishing business.

---

## RISK FACTORS

---

As also advised by the Company's legal advisers as to PRC laws, in the event that the operation of Huadong Feitian is found having exceeded the scope as permitted under the Regulations for the Administration of Internet Electronic Notice Services (《互聯網電子公告服務管理規定》), all revenue attributable to such business is liable to be confiscated and Huadong Feitian is also liable to a maximum penalty which is equal to five times of such revenue and in case of a serious contravention, the operation of the Internet website will be ordered to be closed down. No penalty is expected and impact on the Group would be immaterial because, as confirmed by the Directors, no revenue has been generated from such business.

As advised by the Company's legal advisers as to PRC laws, in the event that Huadong Feitian is found to have contravened the Internet Visual/Audio regulations, the Group might be ordered by authorities to cease such operation and to pay a fine of not more than RMB30,000, and the equipment in connection with such operation will be seized and the Group will be subject to a maximum penalty of two times of the total investment to such business in case of severe contravention. Based on the internal financial records on the total investment to such business of the Group, the Directors estimate such penalty, if imposed on the Group, will be approximately RMB410,000.

As advised by the Company's legal advisers as to PRC laws, save for the approvals in accordance with the Provisional Regulations for the Administration of Internet Publishing, the Regulations for the Administration of Internet Electronic Notice Services (《互聯網電子公告服務管理規定》) and the Internet Visual/Audio regulations, which are still pending, the relevant structured subsidiaries of the Company have obtained the necessary licences and approvals to carry on its business. If any such licence was revoked or suspended, or if the relevant structured subsidiaries of the Company fail to renew such licences upon expiry or are unable to obtain new licences required by the PRC laws, the business and operations of the Group would be materially and adversely affected. In addition, in the event that the relevant structured subsidiaries of the Company are unable to secure the necessary licences for the expansion of business, the development potential of the Group might be adversely affected.

### **Improper activities of other wireless value-added service providers could affect the business performance of the Group or damage the reputation of the Group**

According to the MII, some wireless value-added service providers have been promoting their services by delivering incorrect or unclear information to the public in order to deceive them or to induce mobile phone subscribers to use their services in order to generate profits. Such kinds of activities would lower the confidence of the public in the wireless value-added service industry and may affect the business of the Group. In the event that service providers mislead the public and relate such activities to the A8.com brand, the reputation of the Group may be significantly damaged. Hence, the Group may have to allocate more resources in the future to advertise, market and promote its products and services so as to build up consumers' awareness in relation to the Group's brand name. Any significant damage to the Group's reputation or any significant failure to promote and protect the Group's brand name and reputation could make it more difficult for the Group to successfully attract mobile phone subscribers for its existing products and services and to launch new products and services, which may have a material adverse effect on the business of the Group.

---

## RISK FACTORS

---

### RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

#### Political and economic policies of the PRC government

The Group’s results, financial condition and prospects are to a significant degree subject to the economic, political and legal developments of the PRC, as a substantial part of the Group’s assets is located in the PRC and substantially all of its revenue is derived from operations that take place in the PRC.

The economic, political and social conditions, as well as government policies, including taxation policies, of the PRC, could affect the Group’s business. The PRC economy differs from the economies of other countries in many respects. The PRC economy has historically been a planned economy and has been in a transitional stage to a more market economy. Although the PRC government has implemented measures emphasizing the use of market forces for economic reform in recent years, there can be no assurance that economic, political or legal systems of the PRC will not develop in a way that is detrimental to the Group’s business, results of operations and prospects.

#### Development of laws and regulations in relation to the Internet or wireless value-added services may affect the Group’s ability to expand its business

Due to the increasing popularity and penetration of the Internet and wireless value-added services, it is possible that the PRC government may adopt various laws and regulations relating to such kinds of transactions. For instance, in September 2006, the MII published the “Notification regarding the regulation of service fee and billing activities related to mobile information services” (《關於規範移動信息服務資費和收費行為之通知》) (“**Notification**”), which regulates, among other matters, the billing system of the enterprises in the telecommunications industry. According to the Notification, service providers are required to send a SMS to the relevant mobile phone subscriber, stating, inter alia, the identity of the mobile operator, the name of the services, the billing standard of such services, and the refunding policy requesting the mobile phone subscriber’s confirmation of the subscription of services. The subscription of services has not been completed, and the service provider shall not demand any payment from the mobile phone subscriber, until the mobile phone subscriber has replied to such SMS. Similar kinds of additional regulatory requirements, any introduction of new laws and regulations or changes to any existing laws and regulations which make it more restrictive for the Group to operate and/or lead to an escalation of compliance costs may have an adverse impact on the Group.

In particular, business structures and operating systems set up on the basis of one understanding of the legislative regime may, in the event of a misunderstanding or misinterpretation of applicable laws or practices or any changes in such laws or practices or a change in its interpretation or enforcement policy, result in the established business structure and/or operating system being or being considered to be in breach of law or subject to new or additional requirements. If in such event the business structure or operating system cannot be modified to conform to the then applicable law or practice or its interpretation, the Group may be unable to conduct the whole or some part of its business.

## **RISK FACTORS**

---

All these factors may limit the growth of the Internet and the industry of wireless value-added services, reduce the number of such transactions, increase the cost of conducting such businesses and/or increase the legal exposure of the relevant service providers, and thus imposing a negative effect on the prospects of the Group’s business.

### **The growth of the PRC economy**

A slow-down in the PRC economy may negatively affect the growth and profitability of the Group. The Group’s financial results have been, and are expected to continue to be, affected by the growth of the PRC economy and that of the Internet and telecommunications industries. The Group cannot predict that the growth of the PRC economy will continue at current rates, or that any slowdown will not have a negative effect on its business.

### **The government control of currency conversion**

Most of revenue of the Group is received in RMB. At present, RMB is not freely convertible to other currencies. Under the current foreign exchange regulations, RMB is convertible without approvals from SAFE only with regard to current account transactions, including trade and service related foreign exchange transactions and payment of dividends to foreign investors, while the foreign exchange transactions in respect of capital account items including the foreign currency capital in any foreign investment enterprise in the PRC, the repayment of the principal amount of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require the prior approval of the SAFE. There can be no assurance that the PRC government will not impose more stringent restrictions on the convertibility of the RMB, especially relating to foreign exchange transactions.

### **PRC foreign exchange control may limit the ability of the Company to utilize the Group’s revenue effectively and affect the ability of the Company to receive dividends and other payments from the Company’s PRC-incorporated subsidiary**

The Company’s PRC-incorporated subsidiary, Cash River, is subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of the RMB into foreign currencies. Currently, foreign investment enterprises (“**FIEs**”) are required to apply to SAFE for “Foreign Exchange Registration Certificates for FIEs”. With such registration certifications (which need to be examined annually), FIEs are allowed to open foreign currency accounts including the “basic account” and “capital account”. Currently, conversion within the scope of the “basic account” (e.g. remittance of foreign currencies for payment of dividends, etc.) can be effected without requiring the approval of SAFE. However, conversion of currency in the “capital account” (e.g. for capital items such as direct investments, loans, securities, etc.) still requires the approval of SAFE.

## RISK FACTORS

---

The applicable law in respect of conversion of RMB into other currencies is the Regulation for Foreign Exchange Controls of the PRC (“**Regulation**”) which came into effect on 1 April 1996 and amended as of 14 January 1997. Under the Regulation, conversion of RMB into foreign currencies for the use of recurring items, including the distribution of dividends and profits to foreign investors of FIEs is permissible and the approval of SAFE is not required, and FIEs are permitted to remit foreign currencies from their foreign currency bank accounts in the PRC upon presentation to the banks of board resolutions which authorize the distribution of profits or dividends and subject to other requirements being satisfied. However, conversion of RMB into foreign currencies for capital items, such as repatriation of capital, repayment of loans and for securities investment, is still under control and needs the approval of SAFE.

In addition, the Notice on Issues concerning Foreign Exchange Management in Financing by PRC Residents by Overseas Special Purpose Vehicle (“**SPV**”) and Return Investments (“**Notice 75**”) promulgated by SAFE which came into force on 1 November 2005 would also apply to the repatriation of revenues by Cash River to the Company in the form of dividend income or otherwise. Pursuant to Notice 75, SPVs are foreign companies that are established by or controlled by PRC residents for raising financing outside of the PRC by way of, including but not limited to, equity issue or convertible debt. Such PRC residents (“**Relevant PRC Residents**”) are required to file an “overseas investment foreign exchange registration” before the establishment of such SPV and subsequently, to update such registration on the occurrence of specified events (“**Specified Events**”) such as (i) the injection of assets or shares of a PRC domestic company into the SPV; (ii) subsequent equity financing by such SPV outside of the PRC; (iii) capital reduction; and (iv) share transfers or share swaps. Subject to completion of the aforesaid registration, payment of dividends, profits and other payments to such SPV will be permitted.

Each of the Company and A8 Music is a SPV for purposes of Notice 75, and accordingly, the Company will not be able to receive dividends, profits and other payments from Cash River, being the Company’s PRC-incorporated subsidiary, unless and until the aforesaid registration has been carried out.

For the purposes of Notice 75, all PRC-resident Shareholders are Relevant PRC Residents under Notice 75. All PRC-resident Shareholders are therefore required to, and have completed, the aforesaid registration with the local SAFE with regard to their ownership of the Company as well as changes in their ownership of the Company in connection with the Reorganization in compliance with the requirements of Notice 75.

Notice 75 also requires a Relevant PRC Resident to repatriate, within 180 days, distributed dividends or profits which such Relevant PRC Resident receives from a SPV and/or income deriving from changes in their shareholding in such SPV. Failure by such Relevant PRC Residents to effect repatriation in accordance with Notice 75 would be punishable under the Rules of the PRC on Foreign Exchange Control. All PRC-resident Shareholders are therefore required to repatriate, within 180 days, distributed dividends or profits they receive from the Company and/or income deriving from changes in their shareholdings in the Company.

---

## RISK FACTORS

---

As at the Latest Practicable Date, all PRC-resident Shareholders have completed the relevant registration with the local SAFE with regard to their direct or indirect ownership of as well as changes in their ownership of the Company in connection with the Reorganization in compliance with the requirements of Notice 75. Besides, each of the PRC-resident Shareholders has undertaken to the Company to comply with Notice 75 which includes the updating of his/her SAFE registration in respect of the occurrence of any Specified Event. The failure of the PRC-resident Shareholders to register or amend their registrations in a timely manner pursuant to Notice 75 or the failure of future relevant PRC-resident Shareholders to comply with the registration procedures set forth in Notice 75 may subject such Shareholders to fines and legal sanctions and may also limit the ability of Cash River to distribute dividends to the Company or otherwise materially and adversely affect the business of the Group.

There is no assurance that the PRC regulatory authorities will not impose further restrictions on the convertibility of the RMB. As all of the revenue of the Group are derived from Cash River in the PRC and these revenues are denominated in RMB, any future restriction on currency exchanges may limit the ability of Cash River to repatriate such revenues to the Company in the form of dividend income or otherwise.

As the Company is an investment holding company with no business operation, in the absence of such dividend income from Cash River, the Company will not be able to distribute dividends to the Shareholders even if the Group, on a consolidated basis, is profitable.

**The implementation of the PRC Enterprise Income Tax Law may significantly increase the Group's income tax expenses and materially decrease the Group's profitability**

During the Track Record Period, the Group was exempted from withholding tax on the dividends received from its subsidiaries in China. Under the PRC Enterprise Income Tax Law that has come into effect on 1 January 2008, enterprises established under the laws of foreign countries or regions whose "de facto management bodies" are located within the PRC territory are considered as "resident enterprises" and thus will normally be subject to Enterprise Income Tax at the rate of 25% on global income. In particular, non-resident enterprises with an institution or establishment in China must pay Enterprise Income Tax at the rate of 25% on taxable income derived by such institution or establishment within China as well as on taxable income earned outside China but which has a "de facto" connection with such institution or establishment. Non-resident enterprises without any institution or establishment within China, or non-resident enterprises whose income has no connection to its institution or establishment inside China must pay a withholding income tax at the rate of 10% on taxable income derived from inside China, unless otherwise exempted pursuant to applicable tax treaties or tax arrangements between the PRC government and the government of other jurisdictions or applicable implementation regulations to be promulgated by the State Council of the PRC. Under the PRC Enterprise Income Tax Law, dividends, bonuses and other equity investment proceeds received by an enterprise are exempted from Enterprise Income Tax if distributed between qualified resident enterprises or if obtained by a non-resident enterprise with institutions or establishments in China from a resident enterprise and having a "de facto" connection with such institutions or establishments.

## RISK FACTORS

---

The State Council of the PRC has promulgated implementation rules for this new tax law, and the withholding Enterprise Income Tax on the dividends the Group receives from its PRC subsidiaries might be levied at the rate of 10%. However, it cannot be assured that the Group will not be considered a “resident enterprise” under the PRC Enterprise Income Tax Law and therefore not be subject to the Enterprise Income Tax rate of 25% on its global taxable income. If the Company or any of its subsidiaries registered outside PRC is treated as a “resident enterprise” under the PRC Enterprise Income Tax Law, its income tax expenses may increase significantly, and its profitability could decrease materially.

### **Future outbreak of Severe Acute Respiratory Syndrome or any other epidemic in the PRC**

The outbreak of Severe Acute Respiratory Syndrome (“SARS”) or any other epidemic could have a material adverse effect on the overall business sentiment and environment in the PRC. Any recurrence of severe acute respiratory syndrome, or SARS, or another widespread public health problem in the PRC, where all of the Group’s revenue is derived, and in Shenzhen, where the operations are headquartered, could adversely affect the operations of the Group. The operations of the business may be severely disrupted by several health-related factors, including the sickness or death of the key officers and employees and a general slowdown in the PRC economy. The spread of any severe communicable disease in the PRC may also worsen the operations of the customers and suppliers, which may have a material adverse effect on the financial condition and results of operations of the Group.

### **There are uncertainties regarding interpretation and enforcement of the PRC laws and regulations**

Although many laws and regulations have been promulgated and amended in the PRC since 1978, the PRC legal system is still not sufficiently comprehensive when compared to the legal systems of certain developed countries. The interpretation of PRC laws and regulations may be influenced by momentary policy changes reflecting domestic political and social changes. In addition, it may also be difficult to enforce judgments and arbitration awards in the PRC.

Many laws and regulations in the PRC are promulgated in broad principles and the Central People’s Government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. There can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon the business, operations or profitability of the Group.