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The following discussion and analysis of the financial condition and results of operations of the Group should be read together with the combined audited financial statements of the Group as at and for the three years ended 31 December 2007, and the accompanying notes included in the Accountants' Report set out in Appendix I to this prospectus. The Accountants' Report has been prepared in accordance with IFRS. The following discussion contains certain forward looking statements that involve risks and uncertainties.

OVERVIEW

The Group is an integrated digital music company. It sources its music content from its own interactive Internet UGC platform, www.a8.com, as well as from other international and domestic record labels. The Group promotes such music content through the wireless network of mobile operators and on the Internet. It sells the music content in form of ringtones, RBTs and IVR Music to mobile phone subscribers in the PRC.

The music content distributed by the Group can be put into two broad categories namely, original independently produced music content and other music content. The original independently produced music content is uploaded by artists to the Group's own interactive Internet UGC platform, www.a8.com, while other music content is licensed from international and domestic record labels. The Group distributes its products through the wireless network of mobile operators such as China Mobile Group and China Unicom Group. In addition, the Group sells non-music content which include games, wall-papers, entertainment news and jokes.

The Group recorded revenue of approximately RMB233.2 million, RMB268.4 million and RMB286.0 million for each of the three years ended 31 December 2007, representing an annual growth rate of approximately 15.1% and 6.5% in 2006 and 2007 respectively. The Directors attribute the slow growth of the Group in 2007 to the temporary downturn of the whole China mobile music market which the Directors believe was mainly resulted from the enforcement of new regulations on service providers initiated by the MII (as described in the paragraph headed "Rules and regulations relating to the telecommunications value added-services industry in the PRC" below). These rules and regulations were meant to correct the improper ways used by service providers to induce mobile phone subscribers to subscribe for certain services. The Directors are of the view that the introduction of such rules and regulations has made mobile phone subscribers more cautious in subscribing for the relevant services and hence adversely affected the wireless value-added services industry in the PRC to a certain extent. This caused a temporary downturn in the industry in late 2006 and early 2007, however, it was gradually recovered as the mobile phone subscribers regained their confidence.

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In addition, the Directors are of the view that, even though such new regulations affected the mobile music market in the PRC in the short-term, it is positive for the continuing healthy development of the entire mobile music market in the PRC and that the Group will benefit from the continuous tightening of regulatory requirements as the Directors consider that such action will raise the entry barriers to the industry, resulting in more opportunities for potential mergers and acquisitions and elimination of some industry players.

MAJOR FACTORS AFFECTING THE RESULTS OF OPERATIONS AND FINANCIAL PERFORMANCE OF THE GROUP

The results of operations and financial performance of the Group have been and will continue to be affected by a number of factors, including those set out below.

Rules and regulations relating to the telecommunications value-added services industry in the PRC

With the increasing popularity and penetration rate of the Internet and wireless value-added services, the PRC government has adopted various rules and regulations to protect the interests of mobile phone subscribers and regulate the market. For instance, in September 2006, the MII published the “Notification regarding the regulation of service fee and billing activities related to mobile information services” (“**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 to request the mobile phone subscriber’s confirmation for 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 confirmed acceptance of the relevant terms. This makes the process for orders through the Internet and wireless value-added services more complex and difficult from the service providers’ viewpoint.

Such rules and regulations also make mobile phone subscribers more cautious on subscribing for the relevant services and hence adversely affected the wireless value-added services industry, including the Group, in the PRC in late 2006 and early 2007. For the two years ended 31 December 2006, the revenue of the Group amounted to approximately RMB233.2 million and RMB268.4 million respectively, which represented an annual growth rate of approximately 15.1%. However, because of the tightening policy of the MII as mentioned above, the Group only recorded an approximately 6.5% increase in revenue, which reached approximately RMB286.0 million for the year ended 31 December 2007. The double confirmation requirement under the Notification affected the services of the Group delivered through SMS the most. The unaudited revenue of the Group’s ringtone services for the eight months ended 31 August 2006, amounted to approximately RMB74.1 million, represented approximately 76.9% of the full year revenue for that services for 2006, indicating that a majority of the Group’s revenue of its ringtone services for the year ended 31 December 2006 had been already recognized during the first eight months in 2006 before the implementation

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of these rules and regulations. The modest growth of approximately 15.1% in the revenue of the Group in 2006 was mainly attributable to the diversification of the Group's services to RBT (for which double confirmation by mobile phone subscribers is not required), which recorded approximately RMB42.1 million in 2006, representing a growth rate of approximately 217.4% as compared with that in 2005.

In general, the Directors are of the opinion that, the digital music business in the wireless value-added services industry in the PRC may undergo a market consolidation process, because further implementation of regulations or new rules may increase the related compliance costs resulting in higher operating cost to the industry players.

Relationship with China Mobile Group and China Unicom Group

According to the MII, there were approximately 547.3 million mobile phone subscribers in PRC in 2007. According to the annual report of each of China Mobile Group and China Unicom Group for the year ended 31 December 2007, China Mobile Group had a market share of approximately 69.3%, while China Unicom Group had a market share of approximately 29.7%, of mobile phone subscribers in China.

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 in 2007. Therefore, a key element of the Group's strategy for revenue growth is to utilize the sales channels of both mobile operators and expand the Group's service to additional geographic areas within the PRC.

However, if China Mobile Group and/or China Unicom Group were to terminate their cooperation with the Group, it would be difficult for the Group to find another appropriate mobile operator with 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. In addition, given their dominant market position, the business of the Group may also be adversely affected if China Mobile Group and/or China Unicom Group were to decide to provide their own mobile music services to their mobile phone subscribers with the same or similar content as those provided by the Group. In such case, the Group's business may face severe competition from either or both of them.

Therefore, as discussed in the paragraph headed "Competitive strengths" under the section headed "Business" in this prospectus, the Group has been striving to strengthen its relationships with both China Mobile Group or China Unicom Group by strategically locating its sales and marketing force around China. Moreover, in order to enhance its competitiveness, the Group has made efforts to distinguish itself from other mobile music focused service providers by focusing on original independently produced songs.

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Taxation

Substantially all the revenue of the Group during the Track Record Period was derived from the PRC and is therefore subject to the PRC income tax. The normal statutory PRC foreign invested enterprise income tax rate and local income tax rate are 30% and 3% respectively, of the assessable income as determined in accordance with the relevant PRC income tax rules and regulations unless it is qualified for certain tax exemptions or reductions. There are various types of preferential tax treatment applicable to different enterprises provided by the PRC national and local tax laws. Enterprises that located in some special region and cities or qualify as an “advanced technology enterprise” enjoy a preferential tax rate or tax reduction, which is significantly lower than the normal tax rate.

Some of the subsidiaries of the Company, namely Huadong Feitian, Cash River, Kwaitonglian and Yunhai Qingtian, were established and operated in the Shenzhen Special Economic Zone of the PRC and are entitled to various levels of preferential tax treatment.

According to the provisions stipulated in the tax circular, Shendishuierhan [2004] No. 349, Huadong Feitian is exempted from income tax for one year commencing from the first year of profitable operations after offsetting prior years’ tax losses, followed by a 50% reduction for the following two years (“**Huadong Feitian Tax Holiday**”). The first profit-making year of Huadong Feitian was 2002 and the Huadong Feitian Tax Holiday commenced in that year. Income tax was supposed to be levied at 15% for the three years ended 31 December 2007. However, on 28 December 2007, Huadong Feitian was granted a 50% tax reduction from 2005 to 2007. As a result, the income tax rate was levied at 7.5% from 2005 to 2007.

According to the provisions stipulated in the tax circular, Shenguoshuifu Jianmian [2005] No. 0015, Cash River was qualified as a software enterprise in 2004 and therefore was exempted from income tax for two years commencing from the first year of profitable operations after offsetting prior years’ tax losses, followed by a 50% reduction for the following three years (“**Cash River Tax Holiday**”). The first profit-making year of Cash River was 2004 and the Cash River Tax Holiday commenced in that year and ended in 2008. Income tax was levied at 7.5% on its assessable profits for the two years ended 31 December 2007.

Kwaitonglian and Yunhai Qingtian were established in 2004 and had no assessable profits for the three years ended 31 December 2007.

Yuesheng Feiyang and Aiyue were granted a 100% tax reduction for 2007. Chuangmeng Yinyue had no assessable profits for the three years ended 31 December 2007.

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The following table is a summary of the applicable tax rate on the subsidiaries of the Company, including those enjoying preferential tax treatment for state income tax rate, for the three years ended 31 December 2007:

Name of company	For the year ended		
	31 December		
	2005	2006	2007
A8 Music	17.5%	17.5%	17.5%
Huadong Feitian	7.5%	7.5%	7.5%
Cash River	0%	7.5%	7.5%
Yunhai Qingtian	15.0%	15.0%	15.0%
Kuaitonglian	15.0%	15.0%	15.0%
Zhonghe Feiyang (Acquired on 24 April 2006 and disposed on 20 December 2007)	N/A	33.0%	33.0%
Chuangmeng Yinyue (Established on 31 May 2005)	33.0%	33.0%	33.0%
Aiyue (Established on 22 May 2007)	N/A	N/A	0%
Yuesheng Feiyang (Established on 26 March 2007)	N/A	N/A	0%
Wangle Tianxia (Established on 8 May 2006 and disposed of on 25 June 2007)	N/A	33.0%	33.0%

For the three years ended 31 December 2005, 2006 and 2007, the effective tax rate was approximately 2.3%, 11.9% and 8.7% respectively. Fluctuations in the effective tax rates and deviation from standard rate are primarily due to the combined effect of the tax exemptions and tax reduction enjoyed by some of the subsidiaries of the Group as described above and increase or decrease in assessable profit of each of the subsidiaries of the Group.

Termination or revision of the various types of preferential tax treatment that the subsidiaries of the Group currently enjoy will have a negative impact on the results of operations and financial condition of the Group.

Share-based expense

The Company has established a Pre-IPO Share Option Scheme under which certain employees of the Company and its subsidiaries and individuals or entities, who are in the opinion of the Board has contributed or will contribute to the growth and development of the Group and the proposed listing on the Stock Exchange, have been granted options to subscribe for Shares at specified prices. Options granted under the Pre-IPO Share Option Scheme entitled the holders thereof to subscribe for an aggregate of [●] Shares, representing approximately [●]% of the Company's total issued share capital after completion of the Share Offer (assuming that the Over-allotment Option is not exercised) and the Capitalization Issue and the issue of

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Remuneration Shares 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 Company has also adopted the Share Option Scheme and no options have been granted thereunder. Generally, the options granted by the Company under the Pre-IPO Share Option Scheme are subject to a vesting period of three years. Each option granted under the Pre-IPO Share Option Scheme has an exercise period of ten years.

In accordance with IFRS 2, a share-based expense will arise from the granting of such options, which are measured by reference to the fair value of the share options as of the date they are granted, and amortized over the vesting period. Options were granted under the Pre-IPO Share Option Scheme on 22 May 2008, it is expected that a share-based expense will be recognized in the income statement of the Group for the period from 2008 to 2011 and therefore will have a negative impact on the financial results of the Group. Based on the information available as at 30 April 2008 and assumed that there was no major difference on the key assumptions, such as prevailing interest rate, with those on the date of grant of such options, the Directors estimated that the amount to be charged to the income statement of the Group for 2008 should be not less than HK\$[●] million. Such estimation will be subject to changes with reference to the prevailing conditions on the date of grant of the option and will also be subject to review by the Company's auditors.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussions and analysis of the financial position and results of operations of the Group are based on the combined financial statements prepared in accordance with the principal accounting policies set forth in the accountants' report as set out in Appendix I to this prospectus. The Group's reported financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the combined financial statements. The Group bases its assumptions and estimates on historical experience and other assumptions that the Group believes to be reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities and the Group's results. Results may differ from these estimates under different assumptions and conditions.

The selection of critical accounting policies, the judgments and uncertainties affecting application of those policies and the sensitivity of reported results and financial condition to changes in conditions and assumptions are factors to be considered when reviewing the Group's combined financial statements. The Group believes that the following critical accounting policies involve the most significant judgments and estimates used in the preparation of its combined financial statements.

Revenue recognition

Gross revenue of the Group is recognized based on the mobile and telecom service fees, net of the amount of uncollectibles.

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China Mobile Group and China Unicom Group 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 commission and network usage fees (collectively referred to as “**Mobile and Telecom Charges**”) are retained by the mobile operators, and are reflected as cost of services provided in the combined income statements 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 Group and China Unicom Group 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 Group and China Unicom Group. Adjustments are made in subsequent periods in case the actual revenue amounts are different from the original estimates.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the income statement, or in equity if it relates to items that are recognized in the same or a different period 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.

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

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

- where the deferred tax liability 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 taxable temporary differences associated with interests in subsidiaries and joint ventures, where 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.

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

- where 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 and joint ventures, deferred tax assets are only recognized 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 utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognized in the combined balance sheets as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed 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.

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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 units 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 recognized. An impairment loss recognized 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.

The Group determines whether goodwill is impaired at least on an annual basis by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized.

Goodwill arose from the acquisition of Zhongge Feiyang on 24 April 2006 is allocated to the production of music programme cash-generating unit. The recoverable amount of the production of music programme cash-generating unit has been determined based on its fair value less costs to sell. The fair value is determined based on the total consideration receivable by the Group upon the disposal of the cash-generating unit on 20 December 2007. The carrying amount of goodwill at 31 December 2006 was RMB7,466,000 (31 December 2005 and 2007: Nil). Further details of the impairment testing of goodwill are set out in note 14 to the audited financial statements of the Group set out in Appendix I to this prospectus.

Property, plant and equipment and depreciation

Depreciation of the property, plant and equipment of the Group 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 lives 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

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The Group reviews the useful life of the plant, equipment and other fixed assets of the Group annually and when there are changes in circumstances that indicate the current expectations differ from previous estimates. The residual values, useful lives and depreciation method of the assets of the Group are reviewed and, if considered appropriate, adjusted at each balance sheet date.

Impairment of non-financial assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of the non-financial assets of the Group to determine whether there is any indication that those assets have suffered an impairment loss. 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 calculated as 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 recognized 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 each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized 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, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

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Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost 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 been incurred) discounted at the financial asset’s original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the income statement. 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 impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

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 derecognized where:

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

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Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. 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.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities

A financial liability is derecognized 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 recognized in the income statement.

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SUMMARY OF RESULTS OF OPERATIONS

The following table is a summary of the combined results of the Group for each of the three years ended 31 December 2007. The summary below should be read in conjunction with the Accountants’ Report set out in Appendix I to this prospectus.

	Year ended 31 December		
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	233,233	268,438	285,964
Business tax	<u>(6,361)</u>	<u>(8,348)</u>	<u>(7,860)</u>
Net revenue	226,872	260,090	278,104
Cost of services provided	<u>(101,912)</u>	<u>(127,815)</u>	<u>(149,375)</u>
Gross profit	124,960	132,275	128,729
Other income and gains, net	926	9,699	20,180
Gain arising from disposal of an equity interest in a jointly-controlled entity	–	–	5,694
Selling and marketing expenses	(69,285)	(67,821)	(67,073)
Administrative expenses	(14,123)	(22,383)	(21,715)
Other expenses	(138)	(2,757)	(70)
Finance costs	(310)	(4,965)	(4,913)
Share of profits and losses of jointly-controlled entities	<u>(59)</u>	<u>554</u>	<u>(347)</u>
PROFIT BEFORE TAX	41,971	44,602	60,485
Tax	<u>(974)</u>	<u>(5,314)</u>	<u>(5,248)</u>
PROFIT FOR THE YEAR	<u>40,997</u>	<u>39,288</u>	<u>55,237</u>
Attributable to:			
Equity holders of the Company	41,842	39,863	55,274
Minority interests	<u>(845)</u>	<u>(575)</u>	<u>(37)</u>
	<u>40,997</u>	<u>39,288</u>	<u>55,237</u>

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MAJOR PROFIT AND LOSS ITEMS

Revenue

Most of the Group's revenue is derived from music related services which mainly include ringtones, RBTs and IVR Music. Other music-related services mainly refer to the provision of photos and wallpaper of artists to mobile phone subscribers. During the Track Record Period, revenue of the music related services continued to be the major source of revenue of the Group. For the three years ended 31 December 2007, the revenue derived from revenue of music related content contributed approximately 54.8%, 59.3% and 69.0% of the Group's total revenue respectively. Set out below is a breakdown of the Group's revenue by principal services during the Track Record Period:

	Year ended 31 December					
	2005		2006		2007	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Music-related revenue						
– Ringtones	85,798	36.8	96,395	35.8	72,206	25.3
– RBTs	13,260	5.7	42,086	15.7	89,498	31.3
– IVR Music	15,706	6.7	7,160	2.7	20,748	7.2
– Others	13,032	5.6	13,618	5.1	14,990	5.2
Subtotal	<u>127,796</u>	<u>54.8</u>	<u>159,259</u>	<u>59.3</u>	<u>197,442</u>	<u>69.0</u>
Non-music-related revenue	<u>105,437</u>	<u>45.2</u>	<u>109,179</u>	<u>40.7</u>	<u>88,522</u>	<u>31.0</u>
Total	<u><u>233,233</u></u>	<u><u>100.0</u></u>	<u><u>268,438</u></u>	<u><u>100.0</u></u>	<u><u>285,964</u></u>	<u><u>100.0</u></u>

In general, the Group's revenue move positively with the market trend of the PRC wireless value-added services. The Group recorded revenue of approximately RMB233.2 million, RMB268.4 million and RMB286.0 million for each of the three years ended 31 December 2007, representing an annual growth rate of 15.1% and 6.5% in 2006 and 2007 respectively. The growth of the Group in 2007 slowed down principally because of the temporary downturn in the China mobile music market which mainly resulted from the enforcement of new regulations on service providers initiated by the MII as discussed above.

As shown in the above table, ringtones have been a major source of revenue of the Group during the Track Record Period. Revenue generated from ringtones demonstrated a modest growth from approximately RMB85.8 million for the year ended 31 December 2005 to approximately RMB96.4 million for the year ended 31 December 2006. The Group diversified into other products like RBTs and IVR Music, as a result of which the relative weighting of the Group's revenue derived from ringtones was reduced to 67.1%, 60.5% and 36.6% of the Group's total music-related revenue for the three years ended 31 December 2007 respectively.

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During the Track Record Period, the Group diversified its business into RBTs and other music related products. Out of which, revenue from RBTs grew significantly from approximately RMB13.3 million for the year ended 31 December 2005 to approximately RMB89.5 million for the year ended 31 December 2007. As RBT is a relatively new service of the Group which was launched in 2004, the Directors expected it to become another major revenue growth driver for the Group. The Group launched its IVR Music services in 2005. During the three years ended 31 December 2007, IVR Music contributed approximately RMB15.7 million, RMB7.2 million and RMB20.7 million to the Group's revenue respectively.

The non-music-related products of the Group primarily consist of jokes, wallpapers and entertainment news. The revenue of such products has also remained at a relatively stable level (in terms of monetary value) as a supplement to the Group's music-related products for the three years ended 31 December 2007.

Cost of services provided

The cost of services provided mainly comprises revenue share of mobile operators and business alliances, music copyright cost for copyright licensed from record label companies and direct costs. Set out below is a breakdown of the Group's cost of services provided according to principal items during the Track Record Period:

	Year ended 31 December					
	2005		2006		2007	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Revenue share of mobile operators	57,868	56.8	56,493	44.2	67,969	45.5
Revenue share of business alliances	31,717	31.1	48,689	38.1	64,332	43.1
Copyright cost	4,082	4.0	10,633	8.3	9,460	6.3
Direct costs	8,245	8.1	12,000	9.4	7,614	5.1
Total	<u>101,912</u>	<u>100.0</u>	<u>127,815</u>	<u>100.0</u>	<u>149,375</u>	<u>100.0</u>

Among these items, the revenue share of mobile operators accounted for a significant portion. It represented a range of charge rate from 15% to 50% of the total revenue settled from network platforms provided by the mobile operators for services of the Group offered through their network platforms and has been the greatest portion of the cost of services provided during the Track Record Period. The revenue share of business alliances represented the portion of revenue paid to business alliances including various Internet hosts, services provider and content providers.

Copyright cost mainly represented the licence fee of copyright from record label companies. The direct costs mainly comprised direct labour cost, Internet and server charges and depreciation expense for the servers.

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For the three years ended 31 December 2007, the cost of services provided represented approximately 43.7%, 47.6% and 52.2% of the revenue of the Group respectively. The increase in cost of services provided as a percentage of the total revenue of the Group resulted from the increase in revenue share with business alliances in order to enhance its market share and the diversification of services into the services such as RBTs and IVR Music which were charged at a higher revenue sharing rate by the mobile operators.

Other income and gains

The Group's other income and gains mainly include the rendering of value-added services on mobile phone cards, fair value gain on derivative financial instruments, interest income, government grant, and realized and unrealized gain from investment.

Selling and marketing expenses

The Group's selling and marketing expenses mainly include promotional and advertising expenses, salaries and bonus, publication, entertainment and expenditure incurred by the selling and marketing departments.

Administrative expenses

Administrative expenses comprise the headquarters expenses mainly relating to management and back office staff salaries and bonuses, rental expenses, professional and consultancy fee as well as depreciation (other than depreciation expense for services).

Other expenses

Other expenses mainly represent the provision for impairment of accounts and other receivable.

Finance costs

Finance costs mainly include accrued interest and amortization of transaction costs of the convertible redeemable preferred shares.

Minority interests

Minority interests represent the interest outside shareholders in the results and net assets of the non-wholly-owned subsidiary of the Group.

Subsidiary	Place and date of incorporation/ establishment	Minority interests	Principal activities
Chuangmeng Yinyue	PRC 31 May 2005	28%	Distribution of musical products

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MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF THE GROUP

Review of historical operating results

Year ended 31 December 2007 compared to year ended 31 December 2006

Revenue

In September 2006, the MII had imposed stringent rules and regulations to govern the wireless-value added services industry which was described in details in the paragraph headed “Rules and regulations relating to the telecommunications value-added services industry in the PRC” in this section above, the Directors are of the view that this makes mobile subscribers more cautious on subscribing the relevant services and hence adversely affect the wireless value-added services industry, including the Group, in the PRC to different extent. As a result, a lot of service providers who had been providing services through the improper ways were adversely affected by these rules and regulations and hence their revenue was significantly reduced. These regulatory developments caused a temporary downturn in the industry in late 2006 and early 2007. However, there was a gradual recovery as the mobile subscribers regained their confidence.

For the year ended 31 December 2007, the revenue of the Group amounted to approximately RMB286.0 million, representing an annual growth rate of approximately 6.5% from approximately RMB268.4 million as compared with 2006. The slow growth was mainly due to the temporary downturn in the wireless value-added services industry which the Directors consider primarily resulted from the enforcement of new regulations on service providers initiated by the MII. In light of this, the Group changed its promotional strategies to focus on a “per-click” basis rather than monthly subscriptions and diversified its services to RBT and IVR Music, all of which are not required by these rules and regulations to be double confirmed by the mobile subscribers. Though the operation of the Group has been adjusted for such requirements, the operation of the Group for the year ended 31 December 2007 was still in a recovering stage and therefore the revenue of the Group for the year ended 31 December 2007 was recorded a modest growth compared with last year.

Cost of services provided

For the year ended 31 December 2007, the cost of services provided by the Group amounted to approximately RMB149.4 million, representing an increase of approximately 16.9% from approximately RMB127.8 million in 2006. The increase was due to increase in the revenue share with business alliances and the shift of significance of product mix from ringtones to RBTs, which were charged at a higher revenue sharing rate by the mobile operators.

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Gross profit

For the year ended 31 December 2007, the gross profit of the Group amounted to approximately RMB128.7 million, representing a decrease of approximately 2.7% from approximately RMB132.3 million in 2006. The overall gross profit margin of the Group decreased from approximately 49.3% to 45.0%. Such decrease was mainly due to the increase in cost of services provided resulting from increase in revenue share with business alliances in order to enhance its market share and the shift of significance of product mix from ringtones to RBTs which were charged at a higher revenue sharing rate by the mobile operators.

Net other income and gains

For the year ended 31 December 2007, net other income and gains of the Group increased significantly to approximately RMB20.2 million from approximately RMB9.7 million in 2006. The significant increase was mainly derived from ad hoc mobile music related projects with mobile operators, investment income and fair value gain on derivative financial investments. The Group entered into contracts with a mobile operator in relation to the production of music related service for a consideration of approximately RMB7.0 million. The contracts were signed with China Mobile Group Heilongjiang Co. Ltd. Harbin Branch (“**China Mobile (Harbin)**”), an independent third party, which launched a promotional campaign on RBT, MMS and MP3 related business and provided a “RBT package” for its subscribers. The Group was engaged to embed values of all related RBT, MMS and MP3 to the mobile phone SIM cards for China Mobile (Harbin). The Group in turn receives a percentage of the revenue generated from this promotion. The investment income represented the total of the realized and unrealized gain on securities which amounted to approximately RMB6.0 million. The fair value gain on derivative financial instruments of approximately RMB3.1 million was generated from the exercise of the TDF Warrant and the embedded derivatives of the Preferred Shares.

Selling and marketing expenses

For the year ended 31 December 2007, selling and marketing expenses of the Group amounted to approximately RMB67.1 million, representing a decrease of approximately 1.0% from approximately RMB67.8 million as compared with 2006. The decrease was mainly attributable to the reduction of publication cost to approximately RMB2.5 million in 2007 from approximately RMB5.2 million in 2006 but partly offset by the increase of approximately RMB1.9 million of employee benefit expense in 2007.

Administrative expenses

For the year ended 31 December 2007, administrative expenses of the Group amounted to approximately RMB21.7 million, representing a decrease of approximately 3.1% from approximately RMB22.4 million as compared with 2006. The decrease in administrative expenses was primarily due to the decrease of employee expenses resulting from decrease in approximately [10%] headcount in 2007 as compared with 2006.

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Finance costs

The Group had no bank loans for the year ended 31 December 2007. The finance costs represented an amortization of transaction costs of approximately RMB0.8 million and the accrued interest expenses of approximately RMB4.1 million which is measured at a cumulative interest rate of 5% per annum on the sum of the convertible redeemable preferred shares and the amortization of transaction cost at inception. Details of the convertible redeemable preferred shares are set out in note 23 to the audited financial statements of the Group set out in Appendix I to this prospectus.

Tax

For the year ended 31 December 2007, the income tax of the Group decreased to approximately RMB5.2 million from approximately RMB5.3 million in 2006. The effective tax rates of the Group decreased to approximately 8.7% from approximately 11.9% in 2006. The decrease was mainly due to the increase in deductible advertising expenses and staff costs for the year ended 31 December 2007 and the approval of tax exemption for Aiyue and Yuesheng Feiyang for the year ended 31 December 2007.

Profit attributable to equity holders of the Company

For the year ended 31 December 2007, the profit attributable to equity holders of the Company amounted to approximately RMB55.3 million, representing an increase of 38.6% as compared to approximately RMB39.9 million in 2006. The increase was mainly due to the other income generated from the provision of value-added services on mobile phone card increased from approximately RMB2.0 million in 2006 to approximately RMB7.0 million in 2007. Moreover, the Group recorded a gain on disposal of a jointly-controlled entity of approximately RMB5.7 million and total investment income of approximately RMB6.0 million as mentioned in the sub-paragraph headed "Net other income and gains" above. The net profit margin attributable to the equity holders of the Group increased from approximately 14.8% to approximately 19.3% as compared with 2006.

Equity investments at fair value through profit and loss

The Group had cash and cash equivalents of approximately RMB131.3 million as at 31 December 2007, around 2.1% of the surplus cash were invested into a portfolio of securities that were listed in the PRC in 2007. The maximum investment amount of securities portfolio of the Group was approximately RMB3.6 million during the Track Record Period. The Group has maintained a positive operating cash flow status during the Track Record Period. Setting aside part of cash for working capital, the Group still had around RMB100 million of surplus cash on hand as at 31 December 2007. Accordingly, the Group determined to allocate a small part of the surplus cash for equity investment purpose, while the majority of surplus cash had been reserved for the development of the Group's business. As at 31 December 2007, the portfolio has an unrealized gain of approximately RMB2.9 million. The Directors consider that the risk associated with shares offered under initial public offerings in the PRC is relatively low, and consequently the Group's investment policy is to only 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 investment portfolio is evaluated twice a year. The Directors are of the view that the Group's securities investment activity may be ceased after listing if there is an adverse change in the securities market condition in the PRC.

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Other payables and accruals

Other payables and accruals of the Group mainly represented the balance of payment for the acquisition of Zhongge Feiyang and accrued cost for bonus and salary and various relevant taxes. Other payables and accruals increased in 2007 mainly because there were more accruals for advertising and promotion expenses, where invoices had not been received, as at 31 December 2007 as compared to 31 December 2006, and the increase of the accrual of bonus of approximately RMB1.6 million.

Year ended 31 December 2006 compared to year ended 31 December 2005

Revenue

For the year ended 31 December 2006, the Group's revenue amounted to approximately RMB268.4 million, representing an increase of approximately 15.1% from approximately RMB233.2 million in 2005. The Directors attributed the slow down of the level of increase in revenue growth to the enforcement of more stringent regulations initiated by the MII in September 2006, which had a temporary negative impact on the whole wireless value-added services industry in the PRC and thus reduced the growth rate of the Group's revenue from the second half of 2006 and affected the potential for growth in revenue for the whole year.

Cost of services provided

For the year ended 31 December 2006, the cost of services provided by the Group amounted to approximately RMB127.8 million, representing an increase of approximately 25.4% from approximately RMB101.9 million in 2005. The increase was primarily due to the increase of revenue share with business alliances and the licence of the copyright from music labels.

Gross profit

The gross profit of the Group remained at approximately the same level at approximately RMB125.0 million and approximately RMB132.3 million for the two years ended 31 December 2006 respectively. This was in line with the flat revenue growth in the same year.

The Group's gross profit margin decreased from approximately 53.6% to approximately 49.3% in the year 2006. The decrease was due to the increase in revenue share to business alliances in order to enhance its competitiveness for the sake of offsetting the negative impact from the enforcement of new regulations initiated by the MII.

Net other income and gains

For the year ended 31 December 2006, the net other income and gains of the Group amounted to approximately RMB9.7 million, significantly increased from approximately RMB926,000 for the year ended 31 December 2005. Such significant increase in net other income and gains were derived from the ad hoc contracts for the services rendered by the Group in relation to the production of music related products of approximately RMB2.0 million, a management fee income of approximately RMB1.8 million, a government grant of approximately RMB1.5 million, and a fair value gain on derivative financial instruments of approximately RMB935,000.

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The ad hoc contracts were signed in 2006 when China Mobile (Harbin), an independent third party, launched a promotional campaign on RBT, MMS and MP3 related business which provided a "RBT package" for its subscribers. The Group was engaged to embed values of all related RBT, MMS and MP3 to the mobile phone SIM cards for China Mobile (Harbin). The Group in turn received a percentage of the revenue generated from this promotion.

The management fee of approximately RMB1.8 million (i.e approximately RMB150,000 per month) was charged to the Excluded Businesses (as defined in the section headed "Relationship with Controlling Shareholders" in this prospectus) for its operating costs. It represented the costs incurred of sharing offices expenditure which including rental, management fees, utilities and offices supplies.

Though similar government grant was still available, it was awarded to the Company on an one-off basis for subsidizing its high-tech related fixed assets investment. Since the government payment was granted upon its satisfaction on the actual capital investment made by the Group according to pre-agreed proposal, there is no unfulfilled obligation to the Group.

Selling and marketing expenses

For the year ended 31 December 2006, the Group's selling and marketing expenses were controlled at about the same level at approximately RMB67.8 million as compared with that at approximately RMB69.3 million in 2005.

Administrative expenses

For the year ended 31 December 2006, the Group's administrative expenses amounted to approximately RMB22.4 million, representing an increase of approximately 58.9% from approximately RMB14.1 million for the year ended 2005. The increase was due to an increase in staff costs and bonus payment to support the business growth. In addition, it was due to an increase of rental expense and related property and management fee and an increase of professional fees in relation to the issuance of the convertible redeemable preferred shares to various private equity firms, details of which are set out in note 23 to the audited financial statements of the Group set out in Appendix I to this prospectus.

Other expenses

For the year ended 31 December 2006, the Group had other expenses amounting to approximately RMB2.8 million. This represented the provision of doubtful debt of approximately RMB1.1 million and the impairment of other receivables of approximately RMB1.4 million.

Finance costs

The Group's financial costs increased from approximately RMB310,000 in 2005 to approximately RMB5.0 million in 2006 which comprises an accrued interest of approximately RMB4.1 million and an amortization of transaction costs of approximately RMB0.9 million, representing an increase of approximately 16 times as compared with that in 2005. The increase was primarily due to the provision of the accrued interest expenses of the convertible redeemable preferred shares.

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Tax

For the year ended 31 December 2006, the income tax of the Group significantly increased to approximately RMB5.3 million from approximately RMB1.0 million, representing an increase of approximately 430.0% as compared with 2005. The effective tax rates of the Group increased to approximately 11.9% from approximately 2.3% in 2005. The increase was mainly due to the expiration of the tax exemption period of Cash River and the increase in non-deductible advertising expenses and staff costs for tax purpose.

Profit attributable to equity holders of the Company

As a result of the above, the profit for the year attributable to equity holders of the Company were approximately at the same level at approximately RMB41.8 million and approximately RMB39.9 million for the two years ended 31 December 2006 respectively. The net profit margin attributable to the equity holders of the Group decreased from approximately 17.9% in 2005 to approximately 14.8% in 2006.

Other payables and accruals

Other payables and accruals of the Group mainly represented accrued cost for the licensing of copyrights, revenue share with business alliance, bonus and salary and various relevant taxes. The increase of other payables and accruals of the Group in 2006 was mainly due to the balance of payment for the acquisition of Zhongge Feiyang in 2006 for approximately RMB2.2 million and the increase in cost of licensing of the copyrights amounted to approximately RMB1.2 million and the increase of the promotional expenses payable to suppliers amounted to approximately RMB2.5 million.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables of the Group mainly represented the cash advances to staff of provincial sales offices for daily operations, deposits and prepayment for operation related expenses. The balance amount in 2005 mainly consisted of a short-term interest free loan of RMB12.7 million advanced to a then shareholder of Zhongge Feiyang. Since the loan was made with an intention to acquire the entire equity interest of Zhongge Feiyang but pending the finalization of the consideration, the loan was in substance a prepayment for the acquisition of Zhongge Feiyang.

As advised by the legal advisor to the Company as to PRC laws, no lending and borrowing of money between corporations in the PRC is allowed under the current PRC laws and regulations. Therefore, such loan agreement was nullified. However, in case disputes arise regarding such loan agreement, the Company can have the principal amount repaid.

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INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Share of net assets	7,572	13,516	–
Unrealized gain arising from a transfer of assets from Huadong Feitian	<u>(1,691)</u>	<u>(1,450)</u>	<u>–</u>
	<u>5,881</u>	<u>12,066</u>	<u>–</u>

Any Music Limited (“**Any Music**”) was established in the PRC by Huadong Feitian and three other independent investors on 24 December 2002, when Huadong Feitian held a 51% equity interests of Any Music. According to the articles of association of Any Music, significant operating and financial decisions should be made by its board of directors (which comprised representative(s) of each investor) unanimously despite the fact that 51% of its equity interests was held by Huadong Feitian. As a result, Huadong Feitian did not have the unilateral control over the operating and financial activities of Any Music and it was treated as a jointly-controlled entity of the Group in the combined financial statements of the Group.

In December 2002, Huadong Feitian signed an assets transfer agreement with Any Music and undertook to transfer a set of assets, which included domain names, servers, software and other assets, used in the development of RBTs and related music data at a total consideration of RMB8,500,000. The transfer of assets (“**Transfer**”) occurred and was completed in 2003 and the net book value of these assets as at the date of the Transfer was approximately RMB359,000 as reported in the accounting record of Huadong Feitian. As a result, Huadong Feitian recognized a gain of approximately RMB8,141,000 as other income for the year ended 31 December 2003 in its individual financial statements.

Upon preparing the combined financial statements of the Group, the unrealized gain relating to the Transfer computed based on the equity interest held by Huadong Feitian in Any Music amounting to RMB3,737,000 was reversed as a reduction against both other income and investment in a jointly-controlled entity in 2003. This unrealized gain is realized by matching the depreciation and amortization of these assets over their estimated useful lives of eight years made by Any Music and recognized as other income in the combined financial statements of the Group.

ADVANCES TO RELATED PARTIES

As advised by the legal advisor to the Company as to PRC laws, no lending and borrowing of money between corporations in the PRC is allowed under the current PRC laws and regulations. Such transactions shall be conducted through licensed banks and financing corporations. Otherwise, the financing agreements concerned will be nullified. In case disputes arise regarding such kind of financing agreements, the lender can have the principal amount repaid. However, the right to receive the interest charged or agreed to be charged (“**Relevant**

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Interest Income”) will not be protected under the PRC laws. In addition, the lender may also be subject to a fine which is equal to one to five times of the Relevant Interest Income. During the Track Record Period, the Group has no recorded interest income in respect of its lending of money to others. The Controlling Shareholders [have undertaken] to indemnify the Group for any potential losses or damages arising from such advances made.

Details of the advances made by the Group are set out in note 31 to the audited financial statements of the Group set out in Appendix I to this prospectus. The following are the reasons for the Group making advances to the relevant parties:

1. During the Track Record Period, the Group paid on behalf of Mr. Liu Xiaosong, Ms. Cui Jingtao and Mr. Wang Daiqiang (“**Registered Owners**”) certain expenses relating to the personal investments by the Registered Owners. For the two years ended 31 December 2007, Mr. Liu Xiaosong bore all the cost on behalf of the shareholders of the A8 Music for the Music Database Business during the course of the Reorganization.
2. Sales proceeds of RMB1,000,000 and RMB17,200,000 for disposal of Wangle Tianxia and Zhongge Feiyang.
3. Huadong Feitian entered into an entrustment agreement with Shengang Chanxueyan on 1 April 2004 whereby Shengang Chanxueyan was entrusted to invest a sum of RMB9,000,000 into the equity market of the PRC for Huadong Feitian. In January and June 2005, each of Kwaitonglian and Huadong Feitian entered into an entrustment agreement with Shengang Chanxueyan with a sum of RMB8,500,000 and RMB5,000,000 respectively for the same purpose. As advised by the legal advisor to the Company as to PRC laws, all entrustment arrangements mentioned above do not violate any existing PRC laws. The amount of RMB5,000,000 was repaid in full in cash to Huadong Feitian by Shengang Chanxueyan in August 2005. Each of the amount of RMB9,000,000 and RMB8,500,000 were converted into an advance to Shengang Chanxueyan by each of Huadong Feitian and Kwaitonglian on 15 December 2005 and 9 January 2005 respectively and those advances were repaid by 31 December 2005.
4. The advance to Shenzhen Xinlide Electronic Co., Ltd., being a company invested by Mr. Liu Xiaosong, arose from a loan borrowed by such company for its general operations.
5. The advance due from Mr. Zhou Minjian arose as a result of shareholder borrowing. Mr. Zhou Minjian was a minority shareholder of Yunhai Qingtian.
6. The balance with Jiangsu TTV Co. Ltd. arose as a result of a proposed acquisition that ended up unsuccessful. The advance represented an initial payment of deposit.
7. The advance due from Wangle Tianxia represented expenses paid for the daily operation of Wangle Tianxia, a then subsidiary, which was disposed of by the Group on 25 June 2007.

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All of the above loans have been properly approved by relevant shareholders’ meetings or board of directors meetings and have been properly documented as shareholders’ minutes or board of directors’ minutes. All of the above loans had been settled in February 2008.

In order to ensure compliance with applicable PRC laws and regulations and to avoid any subsequent non-compliance issues, the Group will implement relevant measures as internal guidelines to improve compliance issues and the Group’s corporate governance in general before the Listing. Details of such measures are set out in the paragraph headed “Regulatory compliance” in the section headed “Regulatory overview” in this prospectus.

INDEBTEDNESS

Borrowings and debt securities

As at the close of business on 31 March 2008, being the latest practicable date for the purpose of ascertaining the information contained in this indebtedness statement, the Group did not have any outstanding bank borrowings and banking facilities. As at 31 December 2007, the Group had an outstanding liability of approximately RMB68.5 million arising from the issue of [930,000] convertible redeemable preferred shares (“**Preferred Shares**”) by a member of the Group and such liability represented the liability component of such Preferred Shares carried on the amortized cost basis on such date. For a more detailed discussion of the principal terms of the Preferred Shares, please refer to note 23 to the audited financial statements of the Group set out in Appendix I to this prospectus.

All of the [930,000] Preferred Shares will be converted into ordinary shares of the Company upon Listing.

Contingent liabilities

The Group had no material contingent liabilities as at 31 March 2008.

Disclaimer

Apart from intra-group liabilities, normal trade and other payables, as at the close of business on 31 March 2008, the Group did not have any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or other purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the Group’s indebtedness and contingent liabilities since 31 March 2008.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

Up to the Latest Practicable Date, the Group generally financed its operations through a combination of shareholders' equity and cash flow from operation. Following completion of the Share Offer, the Group expects its capital and operating requirements will be funded through cash flows from operation, the net proceeds from the Share Offer and cash at bank and in hand. The Directors believe that in the long term, the Group's operations will be funded by internally generated cash flows and, if necessary, equity or debt financing.

Cash flows

The following table sets out selected cash flow data from the Group's combined cash flow statements for the year indicated:

	For the year ended		
	31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Net cash inflow from operating activities	16,615	46,292	17,221
Net cash outflow from investing activities	(404)	(16,716)	(5,911)
Net cash inflow/(outflow) from financing activities	43,109	(116)	–
Net increase in cash and cash equivalents	59,320	29,460	11,310
Cash and cash equivalents at end of year	93,899	123,359	131,315

Cash flows from operating activities

Net cash inflow from operating activities of the Group for the year ended 31 December 2007 was approximately RMB17.2 million, resulted from cash generated from operations of approximately RMB26.6 million and tax paid of approximately RMB9.4 million. Operating profit before working capital changes was approximately RMB51.7 million. The decrease in net cash inflow from operating activities was mainly due to the increase of accounts receivable of approximately RMB27.3 million though it was partly offset by the increase of accounts payable of approximately RMB5.6 million. The increase of accounts receivable was mainly due to the change of the payment policy of a mobile operator starting from January 2007 which required a longer settlement period. In addition, the settlement period for the Group's newly developed business launched in April 2007 was longer than the average turnover days of 2006 (50.4 days). The increase of accounts payable was mainly due to the increase of the revenue share by the Group's business alliance in 2007.

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Net cash inflow from operating activities of the Group for the year ended 31 December 2006 was approximately RMB46.3 million, resulted mainly from cash generated from operations of approximately RMB49.4 million and income tax paid of approximately RMB3.1 million. Operating profit before working capital changes was approximately RMB51.0 million. For the year ended 31 December 2006, the changes in working capital was approximately RMB1.6 million primarily as a result of an decrease in accounts receivable of approximately RMB4.2 million, increase in accounts payables of approximately RMB2.9 million and increase in other payables and accruals of approximately RMB2.1 million, which was offset primarily by increase in prepayments, deposits and other receivables of approximately RMB10.7 million. The decrease in accounts receivables was in line with decrease in revenue of the Group mainly resulted from the temporary downturn in the wireless value-added industry in late 2006. The increase in accounts payables and other payables and accruals was due to the Group’s intention to make the best use of its payment terms within the allowable period in view of the relatively stagnant market in the second half of 2006. The increase in prepayment, deposits and other receivable was due to the advance of approximately RMB5.2 million to two employees of the Group, the advance of approximately RMB1.3 million to staff of provincial sales offices for daily operations and the prepayment of approximately RMB2.3 million for music copyright.

Net cash inflow from operating activities of the Group for the year ended 31 December 2005 was approximately RMB16.6 million, resulted mainly from cash generated from operations of approximately RMB17.0 million and income tax paid of approximately RMB0.4 million. Operating profit before working capital changes was approximately RMB44.9 million. For the year ended 31 December 2005, changes in working capital amounted to approximately RMB27.9 million primarily as a result of the increase in accounts payables of approximately RMB4.4 million and increase in other payables and accruals of approximately RMB6.8 million, which were offset primarily by increase in accounts receivable of approximately RMB18.7 million, increase in prepayments, deposits and other receivables of approximately RMB16.5 million and decrease in amount due to a jointly-controlled entity of approximately RMB3.9 million. The increase of accounts receivable were in line with the increase of the revenue. The increase of prepayments, deposits and other receivables was mainly due to the loan to the then shareholder of Zhonghe Feiyang amounted to RMB12.7 million.

Cash flows from investing activities

Net cash outflow from investing activities of the Group for the year ended 31 December 2007 was approximately RMB5.9 million, which was mainly due to the increase in amounts due from related parties of approximately RMB22.3 million resulted from cost incurred for the operation of the Excluded Businesses on behalf of the then shareholders of the Group. The amount was subsequently settled in February 2008. The outflow was partly set off by the inflow from proceeds from the disposal of an interest in Any Music amounting to approximately RMB13.2 million, details of which are described in note 16 to the audited financial statements of the Group set out in Appendix I to this prospectus. Any Music is mainly engaged in the provision of total solution of wireless entertainment. The Group disposed of it in May 2007 so as to focus on the existing business of the Group.

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Net cash outflow from investing activities of the Group for the year ended 31 December 2006 was approximately RMB16.7 million, which was primarily resulted from the increase in amounts due from related parties of approximately RMB17.5 million but offset by the proceeds from sale of investment of listed securities in the PRC of approximately RMB3.9 million. The increase in amounts due from related parties was due to the cost incurred for the operation of the Excluded Businesses on behalf the then shareholders of the Group.

Net cash outflow from investing activities for the year ended 31 December 2005 was approximately RMB0.4 million, which was primarily resulted from the purchase of items of property, plant and equipment such as servers and computers of approximately RMB6.2 million and investment cost incurred for the acquisition of minority interests of approximately RMB0.7 million. It was offset by the decrease in amounts due from related parties of approximately RMB6.5 million.

Cash flows from financing activities

There were no financing activities for the year ended 31 December 2007.

The Group recorded a cash outflow of approximately RMB0.1 million from financing activities in 2006 because of settlement of expenditure on the issue of convertible redeemable preferred shares in 2005.

Net cash inflow from financing activities amounted to approximately RMB43.1 million in 2005. The net cash inflow from financing activities in 2005 was mainly resulted from the receipt of the gross proceeds from the issue of convertible redeemable preferred shares of approximately RMB45.9 million, netting off its related expenses of approximately RMB5.0 million.

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Net current assets

The table below sets out the Group's current assets, current liabilities and net current assets as at 31 March 2008:

	<i>RMB'000</i>
Current assets	
Accounts receivable	88,114
Amounts due from related parties	100,000
Prepayments, deposits and other receivables	24,616
Equity investments at fair value through profit or loss	3,601
Cash and cash equivalents	<u>109,347</u>
 Total	 <u>325,678</u>
Current liabilities	
Accounts payables	(33,188)
Other payables and accruals	(29,991)
Amounts due to a minority shareholder	–
Amount due to a jointly controlled entity	–
Tax payable	(2,172)
Derivative financial instruments	<u>–</u>
 Total	 <u>(65,351)</u>
 Net current assets	 <u><u>260,327</u></u>

Note 1: The amount of RMB[100] million advanced to [●] was planned for dividend distribution to the shareholders of A8 Music but was not paid as such pending the completion of the Corporate Reorganization and the relevant receivable would be set off against by the same amount of dividend to be declared immediately prior to the completion of the Corporate Reorganization.

ANALYSIS OF THE ACCOUNTS RECEIVABLES

The following table set forth the turnover day(s) of the accounts receivables for the year indicated:

	For the year ended 31 December		
	2005 <i>(Note)</i>	2006 <i>(Note)</i>	2007 <i>(Note)</i>
Trade receivable turnover day(s)	<u>66.2</u>	<u>50.4</u>	<u>81.6</u>

Note: Accounts receivable are as at the end of the year. Turnover of accounts receivable equal accounts receivable at the end of the year divided by revenue and multiplied by 360 days.

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The Group's turnover days of accounts receivable has been stable at a range of approximately 50.4 to 66.2 days for the two years ended 31 December 2006. The increase of the accounts receivable and the Group's turnover days for the year ended 31 December 2007 was mainly due to the change starting from January 2007 of the payment policy of China Unicom Group in respect of which the amount due from such operator will be settled in a longer period after relevant services rendered. In addition, the settlement agreements of the Group's newly developed business launched in April 2007, including Kwaitonglian's new IVR business with China Mobile and the Group's China Mobile's Central Music Platform with China Mobile Group were signed in November 2007. The payment terms of the Central Music Platform business were agreed to be 90 days and those relating to the new IVR business were agreed to be 60 days after the invoiced date.

Ageing analysis of accounts receivable

The following table sets forth the age of accounts receivable of the Group as at the dates indicated:

	As at 31 December					
	2005		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%
Within 30 days	19,328	45.1	16,446	43.8	29,091	44.9
Between 31 days to 60 days	11,651	27.2	10,300	27.4	13,658	21.1
Between 61 days to 90 days	5,649	13.2	5,615	15.0	7,282	11.2
Between 91 days to 120 days	2,548	5.9	2,079	5.5	6,100	9.4
Over 120 days	3,682	8.6	3,113	8.3	8,678	13.4
Total	<u>42,858</u>	<u>100.0</u>	<u>37,553</u>	<u>100.0</u>	<u>64,809</u>	<u>100.0</u>
Subsequent settlement by 29 February 2008					<u>43,719</u>	<u>67.5</u>
					<u>21,090</u>	<u>32.5</u>

The Group normally invoices its customers one month after the closures of the month's accounts. 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 of which the relevant invoice is issued by the Group.

The aging analysis indicates that there were approximately RMB8.7 million accounts receivable remain outstanding over 120 days as at 31 December 2007. The outstanding balances as at 31 December 2007 principally represented few pro-longed reconciliation with mobile operators, out of which over 67% had already been settled as at 29 February 2008. As confirmed by the Company, there was no accounts receivable aged over one year as at 31 December 2007.

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ACCOUNTS PAYABLE

The accounts payable of the Group mainly related to the revenue sharing with business alliances in relation to the sale and promotional activities and copyrights cost incurred for the music related content.

The following table set forth the turnover day(s) of the accounts payable for the year indicated:

	For the year ended 31 December		
	2005 <i>(Note)</i>	2006 <i>(Note)</i>	2007 <i>(Note)</i>
Accounts payable turnover day(s)	<u>33.7</u>	<u>35.0</u>	<u>43.5</u>

Note: Accounts payable are as at the end of the year. Turnover of accounts payable equal accounts payable at the end of the year divided by cost of services provided and multiplied by 360 days

The Group's turnover days of accounts payable has been stable at a range of approximately 33.7 to 43.5 days for the Track Record Period. The gradual increase of the accounts payable during the Track Record Period was due to the increase of the revenue share by the Group's business alliances over the years. The settlement period was normally maintained at 30 to 60 days. The increasing trend was due to the payment terms of licence of copyright. In 2006, most of the copyrights were on a minimum guarantee basis which was prepaid; however, starting from 2007, the minimum guarantee has become smaller in amount, and most of the copyright has been paid on revenue share basis with 90 to 120 days payment terms.

Ageing analysis of accounts payable

The following table sets forth the age of accounts payable of the Group as at the dates indicated:

	As at 31 December					
	2005		2006		2007	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Within 30 days	3,553	37.2	3,665	29.5	8,576	47.5
Between 31 days to 90 days	3,717	39.0	6,390	51.4	7,073	39.2
Between 91 days to 180 days	1,677	17.6	1,798	14.5	702	3.9
Over 180 days	<u>594</u>	<u>6.2</u>	<u>578</u>	<u>4.6</u>	<u>1,698</u>	<u>9.4</u>
Total	<u>9,541</u>	<u>100.0</u>	<u>12,431</u>	<u>100.0</u>	<u>18,049</u>	<u>100.0</u>

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TAXATION

Hong Kong

No Hong Kong profits tax was provided for the Track Record Period as there were no assessable profits arose from such period.

PRC

Substantially all the revenue of the Group during the Track Record Period was derived in the PRC and was therefore subject to the PRC income tax. The normal statutory PRC foreign invested enterprise income tax rate and local income tax rate are 30% and 3% respectively, of the assessable income as determined in accordance with the relevant PRC income tax rules and regulations unless it is qualified for certain tax exemptions or reductions. Some of the subsidiaries of the Group, namely Huadong Feitian, Cash River, Kwaitonglian and Yunhai Qingtian, were established and operate in the Shenzhen Special Economic Zone of the PRC and therefore are entitled to various levels of preferential tax treatment. The rest of the subsidiaries including Yuesheng Feiyang and Chuangmeng Yinyue, enjoy no preferential tax treatment or tax reduction and are therefore subject to income tax rate of 33%. For details, please refer to note 10 to the audited financial statements of the Group set out in Appendix I to this prospectus.

Overseas

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law and, accordingly, is exempted from payment of the Cayman Islands income tax.

General

The Group has submitted all necessary tax filings and has concluded with the relevant tax authorities in the PRC and Hong Kong on the amount of tax liabilities and, as far as the Directors are aware, there were no disputes with these tax authorities during the Track Record Period.

An analysis of the income tax charges during the Track Record Period is as follows:

	Year ended 31 December		
	2005	2006	2007
	RMB'000	RMB'000	RMB'000
Group			
Current – PRC			
Charge for the year	607	5,314	5,248
Underprovision	367	–	–
	<u>974</u>	<u>5,314</u>	<u>5,248</u>
Total tax charge for the year	<u>974</u>	<u>5,314</u>	<u>5,248</u>

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

	Year ended 31 December					
	2005		2006		2007	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	<u>41,971</u>		<u>44,602</u>		<u>60,485</u>	
Tax calculated at the statutory tax rate	3,148	7.5	3,345	7.5	4,536	7.5
Effects of tax holiday on assessable profits	(3,506)	(8.4)	–	–	(401)	(0.6)
Adjustments in respect of current tax of previous periods (<i>note a</i>)	367	0.9	–	–	–	–
Income not subject to tax (<i>note b</i>)	(40)	(0.1)	(658)	(1.5)	(614)	(1.0)
Expenses not deductible for tax purposes (<i>note c</i>)	600	1.4	2,257	5.1	1,174	1.9
Tax losses not recognized	401	1.0	412	0.9	527	0.9
Profit and losses attributable to jointly-controlled entities	<u>4</u>	<u>–</u>	<u>(42)</u>	<u>(0.1)</u>	<u>26</u>	<u>–</u>
Tax charge at the Group's effective rate	<u>974</u>	<u>2.3</u>	<u>5,314</u>	<u>11.9</u>	<u>5,248</u>	<u>8.7</u>

Notes:

- (a) These amounts mainly represent under-provision of current tax in prior year.
- (b) These amounts mainly represent other income and gains, including fair value gain on investment at fair value through profit or loss, realization of unrealized gain arising from a transfer of assets from Huadong Feitian to a jointly-controlled entity, fair value gain on derivative financial instruments and government grant.
- (c) These amounts mainly represent the excess of advertising and entertainment expenses, and staff cost and benefits above an upper limit, which is calculated with reference to a certain percentage of revenue/deduction threshold, for deductible expenses in accordance with PRC tax rules and regulations.

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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 to its then shareholders which represents approximately 55.1% of the net asset value of the Group as at 31 December 2007. Given the Group has approximately RMB131.3 million cash and cash equivalents as at 31 December 2007 and expected a positive cash position generated from operating activities by the time the dividend to be paid out, such dividends was paid out of the Group’s internal resources, which was settled on [●] 2008. Potential investors should note that there is no assurance that dividends of similar amounts or at similar rates will be paid in the future. In this regard, please also refer to the paragraph headed “The historical dividends of the Group should not be treated as an indicator of future dividend policy” in the section headed “Risk factors” in this prospectus.

Currently the Group has no intention of paying any dividends after the completion of the Share Offer. However, the Directors intend to pay dividends in the future, the amount and rates of dividends will be subject to, among other things, the Group’s results of operations, cash flow, financial conditions, operating and capital requirements and other factors which the Directors consider important.

PROPERTY INTERESTS IN THE PRC

The headquarters and major operational facilities of the major operating companies of the Group are located in Shenzhen, the PRC. As at the Latest Practicable Date, the Group did not own any property. The Group’s headquarters, all of its offices and operational facilities are housed in leased properties. The Group’s headquarters are located at the 4th and 5th Floor, Fucheng Hi-tech Building, Southern District of Hi-tech Park, Nanshan District, Shenzhen City, Guangdong Province, the PRC, which occupy gross floor area of approximately 3,600 sq.m..

The Group also maintains branch offices and representative offices in major cities such as Beijing, Shanghai, Nanjing, Guangzhou, Guiyang, Shijiazhuang, Wuhan, Chengdu, Shenyang, Xian, Zhengzhou, Fuzhou, Hefei, Hangzhou, Changsha, Jilin and Jinan in the PRC. These offices are used to facilitate the development of business and relationships between the Company and business partners.

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. However, the Company’s legal advisers as to PRC laws considers that if the relevant lessor of these properties can provide the Group with proper title documents and authority document, the relevant leases are effective. The Directors also confirm that the Group will not renew the relevant tenancy agreements with the relevant landlords upon their respective expiry dates and will relocate the [branch offices] unless such landlords can evidence their respective authority to enter into the relevant leases.

The Group believes that it will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate its future expansion plans.

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Details relating to property interests of the Group are set out in Appendix III to this prospectus. Asset Appraisal Limited, an independent property valuation firm, has valued the properties leased by the Group as of [●] 2008. The text of its letter, summaries of values and valuation certificates are set out in Appendix III to this prospectus.

MARKET RISKS

The Group is, in its normal course of business, exposed to market risks primarily relating to fluctuations in credit, interest rates and exchange rates risk. The Group's risk management strategy aims to minimize the adverse effects of the following risks on its financial performance.

Credit risk

The credit risk associated with the services provided by the Group has been shared between the Group and the mobile operators. The Group's customers usually settle the amounts due to the Group within a period of 30 to 120 days. As at 31 December 2005, 31 December 2006 and 31 December 2007, the Group's accounts receivable amounted to approximately RMB42.9 million, RMB37.6 million and RMB64.8 million respectively, representing approximately 24.1%, 16.3% and [22.3%] of the total assets of Group. In the event that the outstanding accounts receivables continue to increase, the burden on the Group's working capital will increase accordingly and its financial performance may be adversely affected. The Group has a credit policy in place and the exposures to credit risks are monitored on an ongoing basis.

Interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its term deposits placed with bank. Since the Group currently has no interest rate hedging policy, the net income of the Group may be affected if the prevailing interest rate goes down.

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. However, the Group's convertible redeemable preferred shares are denominated in US Dollars. The Group does not have a foreign currency hedging policy in respect of the possible redemption of such preferred shares.

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WORKING CAPITAL

[The Directors are of the opinion that, taking into consideration the financial resources available to the Group, including internally generated funds and the estimated net proceeds from the New Issue, the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months from the date of this prospectus.]

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

The Directors confirm that, as at the Latest Practicable Date, there had been no circumstances that would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that they have performed sufficient due diligence on the Company to ensure that, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 31 December 2007, the date to which the latest consolidated audited financial statements of the Group were prepared and that there is no event that has occurred since 31 December 2007 which would materially affect the information shown in the Accountants' Report as set out in Appendix I to this prospectus.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company had no reserves available for distribution to the Shareholders.