The following is the text of a report, prepared for the purpose of incorporation in this propectus, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong:

ERNST & YOUNG

18th Floor
Two International
Finance Centre
8 Finance Street
Central
Hong Kong

[date]

The Directors
A8 Digital Music Holdings Limited
SBI E2-Capital (HK) Limited

Dear Sirs,

We set out below our report on the financial information of A8 Digital Music Holdings Limited (the "**Company**") and its subsidiaries and jointly-controlled entities, prepared on the basis set out in note 2.1 of Section II below, for each of the three years ended 31 December 2005, 2006 and 2007 (the "**Relevant Periods**") for inclusion in the prospectus of the Company dated [date] (the "**Prospectus**") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Company and its subsidiaries are hereinafter collectively referred to as the "**Group**".

The Company was incorporated as A8 Music International Limited in the Cayman Islands on 2 October 2007 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands. Pursuant to a special resolution dated 7 November 2007 and approved by the Registrar of Companies of the Cayman Islands, the name of the Company was changed to A8 Digital Music Holdings Limited. Pursuant to a group reorganisation (the "**Reorganisation**") as detailed in note 1 of Section II, the Company became the holding company of the subsidiaries set out in note 1 of Section II. The Reorganisation became effective on [●].

All companies now comprising the Group and the Group's jointly-controlled entities have adopted 31 December as their financial year end date. No audited financial statements have been prepared for the Company since the date of its incorporation as there is no statutory requirement for the Company to prepare audited financial statements. The statutory audited financial statements or management accounts of the subsidiaries and jointly-controlled entities established in the People's Republic of China (the "**PRC**" or "**Mainland China**") were prepared in accordance with the generally accepted accounting principles and the relevant financial regulations of the PRC. The directors of the Company have prepared the combined financial statements of the companies now comprising the Group for the Relevant Periods (the "**IFRS Financial Statements**") in accordance with International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board, which were audited by us in accordance with International Standards on Auditing issued by the International Federation of Accountants (the "**IFAC**").

The financial information as set out in Sections I to V below (the "**Financial Information**") has been prepared from the IFRS Financial Statements and in accordance with the basis set out in note 2.1 of Section II.

For the purpose of this report, we have carried out an independent audit on the Financial Information in accordance with International Standards on Auditing issued by the IFAC and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). No adjustments were considered necessary to adjust the IFRS Financial Statements in preparing this accountants' report for inclusion in the Prospectus.

The directors of the Company are responsible for the preparation of the Financial Information which gives, for the purpose of this report, a true and fair view, and the contents of the Prospectus in which this report is included. In preparing the Financial Information, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates made are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form, based on our examination, an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the combined results and cash flows of the Group for each of the Relevant Periods and of the state of affairs of the Company as at 31 December 2007 and of the Group as at 31 December 2005, 2006 and 2007.

I. FINANCIAL INFORMATION

(a) Combined income statements

		Year ended 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue		233,233	268,438	285,964
Business tax		(6,361)	(8,348)	(7,860)
Net revenue	*6*	226,872	260,090	278,104
Cost of services provided		(101,912)	(127,815)	(149,375)
Gross profit		124,960	132,275	128,729
Other income and gains, net	*6*	926	9,699	20,180
Gain arising from disposal of an equity interest in a jointly-controlled entity	*16*	–	–	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	*7*	(310)	(4,965)	(4,913)
Share of profits and losses of jointly-controlled entities	*16*	(59)	554	(347)
PROFIT BEFORE TAX	*8*	41,971	44,602	60,485
Tax	*10*	(974)	(5,314)	(5,248)
PROFIT FOR THE YEAR		40,997	39,288	55,237
Attributable to:				
Equity holders of the Company		41,842	39,863	55,274
Minority interests		(845)	(575)	(37)
		40,997	39,288	55,237

(b) Combined balance sheets

		As at 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*13*	11,121	9,577	6,832
Goodwill	*14*	–	7,466	–
Intangible assets	*15*	397	470	360
Interests in jointly-controlled entities	*16*	5,881	12,066	–
Total non-current assets		17,399	29,579	7,192
CURRENT ASSETS				
Accounts receivable	*17*	42,858	37,553	64,809
Amounts due from related parties	*31(b)*	3,770	22,911	59,708
Prepayments, deposits and other receivables	*18*	20,055	17,058	21,552
Equity investments at fair value through profit or loss	*19*	–	–	5,711
Tax recoverable		–	–	900
Cash and cash equivalents	*20*	93,899	123,359	131,315
Total current assets		160,582	200,881	283,995
CURRENT LIABILITIES				
Accounts payable	*21*	9,541	12,431	18,049
Other payables and accruals	*22*	13,040	17,396	18,753
Amount due to a related party	*31(c)*	–	–	3,558
Amount due to a minority shareholder	*31(d)*	–	272	–
Amount due to a jointly-controlled entity	*31(e)*	264	–	–
Tax payable		1,030	3,263	–
Derivative financial instruments	*23*	4,002	3,067	–
Total current liabilities		27,877	36,429	40,360
NET CURRENT ASSETS		132,705	164,452	243,635

		As at 31 December		
		2005	**2006**	**2007**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		150,104	194,031	250,827
NON-CURRENT LIABILITIES				
Deferred tax liabilities	*24*	813	813	813
Convertible redeemable preferred shares	*23*	64,719	69,547	68,510
Total non-current liabilities		65,532	70,360	69,323
Net assets		84,572	123,671	181,504
EQUITY				
Equity attributable to equity holders of the Company				
Issued capital	*26*	512	512	512
Reserves	*26*	83,239	123,102	180,972
		83,751	123,614	181,484
Minority interests		821	57	20
Total equity		84,572	123,671	181,504

(c) Combined statements of changes in equity

	Attributable to equity holders of the Company										
	Issued capital *RMB'000* *(note 26(a))*	**Merger reserve** *RMB'000* *(note 26(b))*	**Surplus contributions** *RMB'000* *(note 26(c))*	**Exchange fluctuation reserve** *RMB'000*	**Capital reserve** *RMB'000*	**Statutory reserve funds** *RMB'000* *(note 26(d))*	**Reserve fund** *RMB'000* *(note 26(d))*	**Retained profits** *RMB'000*	**Total** *RMB'000*	**Minority interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2005	–	28,680	11,063	–	800	3,299	2,038	23,876	69,756	66	69,822
Profit for the year and total income and expense for the year	–	–	–	–	–	–	–	41,842	41,842	(845)	40,997
Capital contribution from minority shareholders	–	–	–	–	–	–	–	–	–	2,250	2,250
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	(650)	(650)
Capitalisation issue of shares	541	–	(541)	–	–	–	–	–	–	–	–
Repurchase of ordinary shares at deemed fair value *(notes 23 and 29)*	(29)	–	–	–	–	–	–	(27,818)	(27,847)	–	(27,847)
Transfer from retained profits	–	–	–	–	–	29	2,384	(2,413)	–	–	–
At 31 December 2005 and 1 January 2006	512	28,680	10,522	–	800	3,328	4,422	35,487	83,751	821	84,572
Profit for the year and total income and expense for the year	–	–	–	–	–	–	–	39,863	39,863	(575)	39,288
Acquisition of minority interests	–	–	–	–	–	–	–	–	–	(189)	(189)
Transfer from retained profits	–	–	–	–	–	118	–	(118)	–	–	–
At 31 December 2006 and 1 January 2007	512	28,680	10,522	–	800	3,446	4,422	75,232	123,614	57	123,671
Exchange realignment and total income recognised directly in equity	–	–	–	2,596	–	–	–	–	2,596	–	2,596
Profit for the year	–	–	–	–	–	–	–	55,274	55,274	(37)	55,237
Total income and expense for the year	–	–	–	2,596	–	–	–	55,274	57,870	(37)	57,833
Transfer from retained profits	–	–	–	–	–	3,383	–	(3,383)	–	–	–
At 31 December 2007	512	28,680	10,522	2,596	800	6,829	4,422	127,123	181,484	20	181,504

(d) Combined cash flow statements

		Year ended 31 December		
		2005	2006	2007
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		41,971	44,602	60,485
Adjustments for:				
Finance costs	*7*	310	4,965	4,913
Depreciation	*8*	3,036	3,180	3,500
Amortisation of intangible assets	*8*	79	99	110
Impairment of accounts receivable	*8*	138	1,118	–
Impairment of other receivables	*8*	–	1,387	–
Loss/(gain) on disposal of items of property, plant and equipment	*8*	(2)	(6)	4
Gain on disposal of investments at fair value through profit or loss	*6*	–	(1,119)	(3,083)
Fair value gain on derivative financial instruments	*6*	(294)	(935)	(3,067)
Fair value gain on investments at fair value through profit or loss	*6*	–	–	(2,885)
Realisation of an unrealised gain arising from a transfer of assets from Huadong Feitian to a jointly-controlled entity	*6*	(241)	(241)	(1,450)
Interest income	*6*	(124)	(1,415)	(1,138)
Dividend income from investments at fair value through profit or loss	*6*	–	–	(153)
Gain on disposal of subsidiaries	*6,28*	–	–	(152)
Excess over the cost of acquisition of minority interests	*6*	–	(89)	–
Gain arising from disposal of an equity interest in a jointly-controlled entity	*16*	–	–	(5,694)
Share of profits and losses of jointly-controlled entities	*16*	59	(554)	347
		44,932	50,992	51,737
Decrease/(increase) in accounts receivable		(18,672)	4,187	(27,256)
Increase in prepayments, deposits and other receivables		(16,471)	(10,740)	(4,637)
Increase in accounts payable		4,365	2,890	5,618
Increase in other payables and accruals		6,768	2,057	1,442
Increase/(decrease) in an amount due to a minority shareholder		–	272	(272)
Decrease in an amount due to a jointly-controlled entity		(3,939)	(264)	–
Cash generated from operations		16,983	49,394	26,632
Interest paid		(1)	(21)	–
Tax paid		(367)	(3,081)	(9,411)
Net cash inflow from operating activities		16,615	46,292	17,221

	Notes	Year ended 31 December 2005 RMB'000	2006 RMB'000	2007 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Disposal of subsidiaries, net of cash received	28	–	–	(1,016)
Purchases of items of property, plant and equipment	13	(6,191)	(3,373)	(919)
Proceeds from disposal of items of property, plant and equipment		51	397	25
Acquisition of minority interests		(650)	(100)	–
Acquisition of a subsidiary, net	27	–	1,495	–
Purchases of intangible assets	15	(250)	(166)	–
Proceeds from disposal of an interest in a jointly-controlled entity		–	–	13,224
Decrease/(increase) in amounts due from related parties		6,512	(17,503)	(22,331)
Increase in an amount due to a related company		–	–	3,558
Purchase of investments at fair value through profit or loss		–	(2,825)	(4,691)
Proceeds from sale of investments at fair value through profit or loss		–	3,944	4,948
Dividend income from investments at fair value through profit or loss		–	–	153
Interest received		124	1,415	1,138
Net cash outflow from investing activities		(404)	(16,716)	(5,911)
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital contribution from minority shareholders		2,250	–	–
Expenses on issue of convertible redeemable preferred shares		(5,005)	(116)	–
Proceeds from issue of convertible redeemable preferred shares	29	45,864	–	–
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 beginning of year		34,579	93,899	123,359
Effect of foreign exchange rate changes, net		–	–	(3,354)
CASH AND CASH EQUIVALENTS AT END OF YEAR		93,899	123,359	131,315
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		56,491	123,179	130,199
Short term deposits		37,408	180	1,116
		93,899	123,359	131,315

II. NOTES TO THE FINANCIAL INFORMATION

1. GROUP REORGANISATION

The Company was incorporated as A8 Music International Limited in the Cayman Islands on 2 October 2007 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands. Pursuant to a special resolution dated 7 November 2007 and approved by the Registrar of Companies of the Cayman Islands, the name of the Company was changed to A8 Digital Music Holdings Limited.

To rationalise the corporate structure in preparation for the listing of its shares on the Stock Exchange, the Company underwent the Reorganisation and acquired A8 Music Group Limited ("**A8 Music**") and its subsidiaries and jointly-controlled entities from the then shareholder of A8 Music and became the holding company of the companies now comprising the Group on [●].

A8 Music and its subsidiaries are principally engaged in the provision of wireless value-added services, including mainly short message services, wireless application services, multimedia message services, ringback tone services and interactive voice response services, through mobile phones in Mainland China.

As at 31 December 2007, the Group had direct or indirect interests in the following subsidiaries and the particulars of which are set out below:

Company name	Place and date of incorporation/ establishment	Paid-up issued/ registered capital	Percentage of equity/interest attributable to the Company Direct	Indirect	Principal activities
A8 Music *(notes (a), (b) and (c))*	BVI 8 October 2003	Ordinary shares US$64,500 Preferred shares US$9,300	100	–	Investment holding
佳仕域信息科技(深圳)有限公司 Cash River Information Technology (Shenzhen) Co., Ltd. ("**Cash River**") *(notes (a), (b), (d) and (f))**	PRC 10 December 2003	HK$1,000,000 Registered capital	–	100	Development of computer software and provision of technical and management consultancy services
深圳市華動飛天網絡技術開發有限公司 Shenzhen Huadong Feitian Network Development Co., Ltd. ("**Huadong Feitian**") *(notes (a), (d) and (f))**	PRC 22 May 2000	RMB28,680,000 Registered capital	–	100	Provision of telecommunications instant messaging and value-added services
深圳市雲海情天文化傳播有限公司 Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("**Yunhai Qingtian**") *(notes (d) and (f))**	PRC 9 December 2004	RMB3,000,000 Registered capital	–	100	Dormant
深圳市快通聯科技有限公司 Shenzhen Kuaitonglian Technology Co., Ltd. ("**Kuaitonglian**") *(notes (b), (d) and (f))**	PRC 10 May 2004	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services

Company name	Place and date of incorporation/ establishment	Paid-up issued/ registered capital	Percentage of equity/interest attributable to the Company Direct	Indirect	Principal activities
北京創盟音樂文化發展有限公司 Beijing Chuangmeng Yinyue Culture Development Co., Ltd. ("**Chuangmeng Yinyue**") *(notes (e) and (f))**	PRC 31 May 2005	RMB5,000,000 Registered capital	–	72	Dormant
北京愛樂空間文化傳播有限公司 Beijing Aiyue Cultural Broadcasting Co., Ltd. ("**Aiyue**") *(note (f))**	PRC 22 May 2007	RMB1,000,000 Registered capital	–	100	Provision of mobile value-added services
北京樂聲飛揚音樂文化傳播有限公司 Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. ("**Yuesheng Feiyang**") *(note (f))**	PRC 26 March 2007	RMB1,000,000 Registered capital	–	100	Provision of mobile value-added services

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

Notes:

(a) The operations of the Group were initially conducted through Huadong Feitian under certain telecommunications value-added services licences granted by the relevant PRC authorities. Since 1 March 2004, Huadong Feitian has been owned by three PRC individuals as to 54.34% held by Mr. Liu Xiaosong ("**Mr. Liu**"); 25% held by Ms. Cui Jingtao ("**Ms. Cui**"); and the remaining 20.66% held by Mr. Wang Daiqiang ("**Mr. Wang**") (Mr. Liu, Ms. Cui and Mr. Wang are collectively referred to as "**the Registered Owners**"). Pursuant to a trust arrangement enacted between Mr. Wang and Mr. Liu dated 4 March 2004, Mr. Wang holds the interest in Huadong Feitian on behalf of Mr. Liu and Mr. Liu is the beneficial owner of such interests.

The current PRC laws and regulations limit the provision of telecommunications value-added services by companies with foreign ownership, which include activities and services operated by Huadong Feitian. In order to enable certain foreign investors to make investments into the businesses of the Group, Cash River Limited and its wholly-owned subsidiary, Cash River (collectively the "**A8 Music Group**"), were established on 8 October 2003 and 10 December 2003, respectively. The name of Cash River Limited was changed to A8 Music on 1 December 2005.

On 29 March 2004, the equity interest of A8 Music was restructured and was held by the following companies: 60.276% by Prime Century Technology Ltd. ("**Prime Century**"), a subsidiary of Ever Novel Holdings Ltd. ("**Ever Novel**") whose issued share capital was then beneficially owned by Mr. Liu; 21.75% by Top Result Enterprise Ltd. ("**Top Result**"), a company beneficially owned by Ms. Cui; and 17.974% by Grand Idea Holdings Ltd. ("**Grand Idea**"), a company whose issued share capital was then beneficially owned by Mr. Liu.

On 30 July 2004, among others, Prime Century, Grand Idea and Top Result entered into an agreement to transfer an aggregate of 5% equity interest in A8 Music to IDG Technology Venture Investments, LP ("**IDG**"). Upon completion of such transfer, the equity interest of A8 Music was restructured as follows: 57.26% held by Prime Century, 20.66% held by Top Result, 17.08% held by Grand Idea and 5% held by IDG.

On 20 September 2004, certain contractual arrangements (the "**Huadong Feitian Structure Contract Arrangements**") were effectuated among A8 Music, Cash River, Huadong Feitian and the Registered Owners to the effect that the business operations, the decision-making power and operating and financial activities of Huadong Feitian are ultimately controlled by A8 Music.

In particular, the A8 Music Group undertakes to provide Huadong Feitian certain management and consulting services and to sell self-developed software to Huadong Feitian. In return, the A8 Music Group is entitled to substantially all of the operating profits and residual benefits generated by Huadong Feitian through various intercompany charges levied on these services rendered. The Registered Owners are also required to transfer their interests in Huadong Feitian to the A8 Music Group or the A8 Music Group's designee upon a request made by the A8 Music Group for a pre-agreed nominal consideration when the PRC laws and regulations allow such transfer in future. The ownership interests in Huadong Feitian have also been pledged by the Registered Owners to the A8 Music Group in respect of the continuing obligations of the Registered Owners; and A8 Music is entitled to nominate and remove members of the board of directors of Huadong Feitian in order to control its operating and financial decisions.

As a result of the effects of the Huadong Feitian Structure Contract Arrangements, Huadong Feitian is accounted for as a subsidiary of A8 Music for accounting purposes.

(b) In order to facilitate certain business operations similar to Huadong Feitian in Mainland China to be implemented, Kuaitonglian was established by Mr. Liu, Ms. Cui and Mr. Wang under the equity ownership percentages of 60.28%, 21.75% and 17.97%, respectively, on 10 May 2004. On 25 October 2004, the Registered Owners transferred, in aggregate, 90% of the equity interest of Kuaitonglian to Mr. Fu Kaiqing ("**Mr. Fu**") while Ms. Cui retains the remaining 10% interest. As a result, Kuaitonglian is held by Mr. Fu and Ms. Cui in equity ownership percentages of 90% and 10%, respectively. Pursuant to the trust arrangements enacted on 10 May 2004 and 30 October 2004, Ms. Cui and Mr. Fu hold their interests in Kuaitonglian on behalf of Mr. Liu and Mr. Liu is the beneficial owner of such interests. The capital contributions/acquisition considerations made by Mr. Fu and Ms. Cui into Kuaitonglian were contracted to be funded by loans, in an aggregate amount of RMB10,000,000, extended by A8 Music under two loan agreements, through capital surplus contributions made by the then shareholders of A8 Music (Prime Century, Top Result and Grand Idea) into A8 Music.

Certain contractual arrangements similar to the Huadong Feitian Structure Contract Arrangements have also been effectuated among A8 Music, Cash River, Kuaitonglian, Mr. Fu and Ms. Cui to the effect that the operating and financial decisions of Kuaitonglian and its businesses are effectively controlled by the A8 Music Group. Accordingly, Kuaitonglian is accounted for as a subsidiary of A8 Music for accounting purposes.

On 27 May 2007, Mr. Fu transferred his 90% equity interest of Kuaitonglian to Ms. Gao Keying ("**Ms. Gao**"). Pursuant to a trust arrangement enacted on 30 May 2007, Ms. Gao holds her interest in Kuaitonglian on behalf of Mr. Liu and Mr. Liu is the beneficial owner of such interest.

(c) No statutory accounts have been prepared for this subsidiary since its incorporation as there is no statutory requirement for this company to prepare audited financial statements.

(d) The statutory accounts for the years ended 31 December 2005 and 2006 were audited by Shenzhen Pengcheng Certified Public Accountants Co., Ltd. (深圳市鵬城會計師事務所有限公司).

(e) The statutory accounts for the years ended 31 December 2005 and 2006 were audited by Beijing Runsheng Jiahua C.P.A. Co., Ltd. (北京潤盛嘉華會計師事務所有限公司).

(f) The statutory accounts for the year ended 31 December 2007 were audited by Shenzhen Qin Ye Zhong Xin C.P.A. Co., Ltd (深圳勤業眾信會計師事務所).

(g) For further details of changes in shareholding of the Company, please refer to the paragraph headed "Corporate history" in the section headed "History and development" of the Prospectus.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on [●]. Since the Company and the companies now comprising the Group were under common control both before and after the completion of the Reorganisation was accounted for using merger accounting. The Financial Information has been prepared on the basis as if the Company has always been the holding company of A8 Music.

The combined income statements, combined statements of changes in equity and combined cash flow statements of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of acquisition, incorporation or establishment, where this is a shorter period. The combined balance sheets of the Group as at 31 December 2005, 2006 and 2007 have been prepared to present the state of affairs of the Group as if the current structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at the respective dates.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards ("**IASs**") and Interpretations of International Financial Reporting Interpretations Committee ("**IFRIC**") approved by the International Accounting Standards Committee that remain in effect. It has been prepared under the historical cost convention, except for equity investments at fair value through profit or loss and derivative financial liabilities which have been measured at fair value. The Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

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

IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Amended)	Consolidated and Separate Financial Statements
IFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combinations
IFRS 8	Operating Segments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede IAS 14 *Segment Reporting*.

IAS 1 (Revised), IAS 23 (Revised), IFRS 2 (Amendment) and IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009.

IAS 27 (Amended), IFRS 3 (Revised), IFRIC 11, IFRIC 12, IFRIC 13 and IFRIC 14 shall be applied for annual periods beginning on or after 1 July 2009, 1 July 2009, 1 March 2007, 1 January 2008, 1 July 2008 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of the IAS 1 (Revised) and IFRS 8 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of combination

This Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition of all other subsidiaries during the Relevant Periods is accounted for using the purchase method of accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The purchase method of accounting involves allocating the cost of a business combination to the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of acquisition is measured at the aggregate fair value of the assets given and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

All significant intra-group transactions and balances have been eliminated on combination.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the companies now comprising the Group. Any excess of the Group's interest in the book value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of minority interests (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

Subsidiaries

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

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the combined income statements and combined reserves, respectively. The Group's investments in jointly-controlled entities are stated in the combined balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of asset transferred.

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 recognised 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. 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 recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Trademarks and licences

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

Operating leases

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

Financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flow that would otherwise be required under the contract. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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 amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised 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 recognised 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 recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to account and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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 derecognised 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 derecognised 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.

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 recognised 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.

Financial liabilities at amortised cost

Financial liabilities including other payables and accruals and an amount due to a minority shareholder are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

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

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair gain of loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Convertible redeemable preferred shares

The component of convertible redeemable preferred shares that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as an interest expense in the income statement. On issuance of foreign currency denominated convertible redeemable preferred shares, the fair value of embedded derivatives is determined and the embedded derivatives are accounted for as a derivative financial liability, with movements in fair value taken to the income statement at each balance sheet date. The remainder of the proceeds is allocated to the liability component which is carried as a liability on the amortised cost basis until it is extinguished on conversion or redemption.

Derecognition of financial liabilities

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

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

Cash and cash equivalents

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

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

Provisions

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

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

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised 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 recognised 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.

Deferred tax assets are recognised 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 utilised, 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 recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at 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 utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised 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 utilised.

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

Government grants

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

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

These financial statements are presented in Renminbi, which is the functional and presentation currency of the Company’s subsidiaries. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the Company and a subsidiary is Hong Kong dollar. As at the balance sheet date, the assets and liabilities of the Company and the subsidiary are translated into the presentation currency of the Group at the exchange rates ruling at the balance sheet date and, the income statements of the Company and the subsidiary are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve.

For the purpose of the combined cash flow statements, the cash flows of the Company and the subsidiary are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and the subsidiary which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

Revenue recognition

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

The Group principally derives revenue from the provision of wireless value-added services, mainly including short message services, wireless application services, multimedia message services, ringback tone services and interactive voice response services through mobile phones in Mainland China.

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

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

China Mobile and China Unicom are entitled to commissions, which are calculated based on agreed percentages of the Mobile and Telecom Service Fees received or receivable by these mobile operators. In addition, in certain cases, the two mobile operators charge a network usage fee based on a fixed per-message fee multiplied by the excess of messages sent over messages received between the platforms of the Group and these two mobile operators. These commissions and network usage fees (collectively referred to as the "**Mobile and Telecom Charges**") are retained by the mobile operators, and are reflected as costs of services provided in the 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 and China Unicom to the Group on a regular basis. For revenue whose amount is not confirmed/advised by the two mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amount receivable based on historical data, which reflect developing trends in customer payment delinquencies. Historical data used in estimating revenues include the most recent history of the Mobile and Telecom Service Fees actually derived from the operators, the number of subscriptions and the volume of data transmitted between the network gateways of the Group, China Mobile and China Unicom. Adjustments are made in subsequent periods in case the actual revenue amounts are different from the original estimates.

Employee benefits

Employee leave entitlements

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

Pension obligations

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

Equity compensation benefits

Prime Century, a shareholder of A8 Music, and Prime Century's parent company, Ever Novel, have jointly adopted a share option plan for the employees of the Group (note 25). Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (**"market conditions**"), if applicable.

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

4. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

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

Judgement

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

Accounting for companies governed under contractual arrangements as subsidiaries

As further detailed in notes 1(a) and (b) above, A8 Music does not have equity ownership in Huadong Feitian and Kuaitonglian. Nevertheless, under the contractual agreements entered into between Huadong Feitian, Kuaitonglian, their respective registered owners and the A8 Music Group, management determines that the Group controls the financial and operating policies of Huadong Feitian and Kuaitonglian so as to obtain benefits from their activities. As such, Huadong Feitian and Kuaitonglian and their respective subsidiaries are accounted for as subsidiaries of A8 Music for accounting purposes.

Estimation uncertainty

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

(a) Recognition of telecommunications value-added services

As mentioned in the "Revenue recognition" section of note 3, for the Mobile and Telecom Service Fees not yet confirmed/advised by the mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amounts receivable based on historical data and developing trends in customer payment delinquencies.

(b) Measurement of convertible redeemable preferred shares and estimation of fair value of derivative financial instruments

On issuance of foreign currency denominated preferred shares, the fair value of embedded derivatives is determined and the embedded derivatives are accounted for as a derivative financial liability. The remainder of the proceeds is allocated to the liability component which is carried as a liability on the amortised cost basis until it is extinguished on conversion or redemption. The fair values of the derivative financial liabilities are reassessed at each balance sheet date with any movement recognised in the income statement. In estimating the fair values of the derivative financial liabilities, the Group uses an independent valuation which is based on various assumptions and estimates.

(c) Impairment of goodwill

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 recognised.

Goodwill arose from the acquisition of 北京中歌飛揚文化傳播有限公司 (Beijing Zhongge Feiyang Culture Broadcasting Co., Ltd.) ("**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 the 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.

5. SEGMENT INFORMATION

Over 90% of the Group's revenue and assets are related to wireless value-added services and over 90% of the Group's revenue is derived from customers based in Mainland China. The directors consider that the Group's activities constitute one business segment since these activities are related and subject to common risks and returns. Accordingly, neither business nor geographical segment information is presented in accordance with IAS 14 *Segment Reporting*.

6. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value and estimated value of services rendered.

An analysis of revenue and other income and gains, net, is as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
Ring-tone services	85,798	96,395	72,206
Ring-back tone services	13,260	42,086	89,498
Interactive voice response services	15,706	7,160	20,748
Other music related services	13,032	13,618	14,990
Non-music related services	105,437	109,179	88,522
	233,233	268,438	285,964
Less: Business tax	(6,361)	(8,348)	(7,860)
Net revenue	226,872	260,090	278,104
Other income and gains, net			
Rendering of value-added services of mobile phone cards	–	2,022	7,004
Gain on disposal of investments at fair value through profit or loss	–	1,119	3,083
Fair value gain on derivative financial instruments	294	935	3,067
Fair value gain on investments at fair value through profit or loss	–	–	2,885
Realisation of an unrealised gain arising from a transfer of assets from Huadong Feitian to a jointly-controlled entity *(note 16)*	241	241	1,450
Interest income	124	1,415	1,138
Management fee income *(note 31(b)(ii))*	–	1,800	900
Dividend income from investments at fair value through profit or loss	–	–	153
Gain on disposal of subsidiaries *(note 28)*	–	–	152
Exchange gain	–	–	75
Government grant	–	1,530	–
Excess over the cost of acquisition of minority interests	–	89	–
Gain on disposal of items of property, plant and equipment	2	6	–
Others	265	542	273
	926	9,699	20,180

7. FINANCE COSTS

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Interest expense on convertible redeemable preferred shares	257	4,075	4,122
Amortisation of transaction costs	52	869	791
Others	1	21	–
	310	4,965	4,913

8. PROFIT BEFORE TAX

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

	Year ended 31 December		
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Depreciation	3,036	3,180	3,500
Amortisation of intangible assets*	79	99	110
Operating lease rentals in respect of office buildings	3,445	4,749	3,779
Auditors' remuneration	29	68	66
Employee benefits expense (including directors' remuneration *(note 9)*):			
Wages, salaries and bonuses	25,818	29,451	27,475
Welfare, medical and other expenses	1,716	1,990	922
Contributions to social security plans	2,368	3,380	2,959
Others	287	337	881
	30,189	35,158	32,237
Loss/(gain) on disposal of items of property, plant and equipment	(2)	(6)	4
Impairment of accounts receivable *(note 17)***	138	1,118	–
Impairment of other receivables *(note 18)***	–	1,387	–
Mobile and telecom charges*	57,867	56,493	67,969

* Included in "Cost of services provided" on the face of the combined income statements.

** Included in "Other expenses" on the face of the combined income statements.

9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Fees	–	–	–
Other emoluments:			
Salaries, bonuses, allowances and benefits in kind	384	660	905
Pension scheme contributions	15	17	13
	399	677	918

Emoluments of the directors of the Company during the Relevant Periods are set out below:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Executive directors:			
Mr. Liu Xiaosong	399	677	658
Ms. Ho Yip, Betty*	–	–	184
Mr. Lin Yizhong*	–	–	76
Non-executive directors:			
Mr. Zhong Xiaolin*	–	–	–
Mr. Li Wei*	–	–	–
Independent non-executive directors:			
Mr. Hui Harry Chi*	–	–	–
Mr. Song Yong Hua*	–	–	–
Mr. Chan Yiu Kong*	–	–	–
	399	677	918

* These directors were appointed on 12 November 2007. Remuneration paid to Ms. Ho Yip, Betty and Mr. Lin Yizhong for the period from 1 January 2007 to 11 November 2007 (not included in the above directors' remuneration disclosure) were approximately RMB551,000 and RMB535,000, respectively.

(b) Five highest paid individuals

The five highest paid individuals included one director in the years ended 31 December 2005 and 2006 and three directors in the year ended 31 December 2007 and details of whose remuneration are set as above. Details of the remuneration of the remaining four (2007: two) non-director, highest paid employees for each of the Relevant Periods are as follows:

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, bonuses, allowances and benefits in kind	1,308	2,032	2,918
Pension scheme contributions	59	68	47
	1,367	2,100	2,965

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

	Year ended 31 December		
	2005	**2006**	**2007**
	Number of employees		
Nil to RMB1,000,000	4	4	2

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

10. TAX

The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing tax rates based on existing legislation, interpretations and practices in respect thereof.

Cash River, Huadong Feitian, Yunhai Qingtian and Kuaitonglian were established and operate in the Shenzhen Special Economic Zone of the PRC. Accordingly, they are subject to income tax at a rate of 15%.

Zhongge Feiyang, Chuangmeng Yinyue, Aiyue and Yuesheng Feiyang were established in Beijing, the PRC and are subject to income tax at a rate of 33%.

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 (the "**Huadong Feitian Tax Holiday**"). The first profit-making year of Huadong Feitian was 2002 and the Huadong Feitian Tax Holiday commenced in that year. According to the provisions stipulated in the tax circular, Shendishuinanhan [2007] No. 462 dated 28 December 2007, Huadong Feitian is entitled to a 50% reduction for another three years commencing from 2005. Income tax was levied at 7.5% on Huadong Feitian's assessable profits for the three years ended 31 December 2007.

According to the provisions stipulated in the tax circular, Shenguoshuifu Jianmian [2005] No. 15, Cash River is 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 (the "**Cash River Tax Holiday**"). The first profit-making year of Cash River was 2004 and the Cash River Tax Holiday commenced in that year. Income tax was levied at 7.5% on its assessable profits for the years ended 31 December 2006 and 2007. No provision for income tax was made for the year ended 31 December 2005.

According to the provisions stipulated in the tax circulars, Xiguoshui Jianmianzi [2007] No. 398 and No. 406, respectively, Aiyue and Yuesheng Feiyang are exempted from income tax for the year ended 31 December 2007.

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

Pursuant to the New Corporate Income Tax Law, a 10% withholding tax will be levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and the jurisdictions of the foreign investors. On 22 February 2008, Caishui [2008] No. 1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 are exempted from the withholding tax.

Detailed implementation and administrative requirements relating to the New Corporate Income Tax Law have not yet been announced. These detailed requirements include regulations concerning the computation of taxable income, as well as specific preferential tax treatments and their transitional provisions. The Group will further evaluate the impact of the New Corporate Income Tax Law on its operating results and financial position of future periods when more detailed requirements are issued.

Yunhai Qingtian and Kuaitonglian were established in 2004 and had no assessable profits for the years ended 31 December 2005, 2006 and 2007.

Chuangmeng Yinyue was established and acquired by the Group in 2005. There were no assessable profits for the years ended 31 December 2005, 2006 and 2007.

Zhongge Feiyang was established in 2003 and acquired by the Group in 2006. There were no assessable profits for the years ended 31 December 2006 and 2007.

An analysis of the income tax charges for each of the Relevant Periods 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	–	–
Total tax charge for the year	974	5,314	5,248

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 for each of the Relevant Periods are as follows:

	Year ended 31 December					
	2005		2006		2007	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%
Profit before tax	41,971		44,602		60,485	
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	367	0.9	–	–	–	–
Income not subject to tax	(40)	(0.1)	(658)	(1.5)	(614)	(1.0)
Expenses not deductible for tax purposes	600	1.4	2,257	5.1	1,174	1.9
Tax losses not recognised	401	1.0	412	0.9	527	0.9
Profit and losses attributable to jointly- controlled entities	4	–	(42)	(0.1)	26	–
Tax charge at the Group's effective rate	974	2.3	5,314	11.9	5,248	8.7

In the year ended 31 December 2005, the Group shared tax credit of RMB20,000 from the jointly-controlled entities. For the years ended 31 December 2006 and 2007, the share of tax expenses attributable to jointly-controlled entities amounted to RMB348,000 and RMB310,000, respectively. These amounts are included in "Share of profits and losses of jointly-controlled entities" on the face of the combined income statement.

11. DIVIDEND

No dividend has been declared by the Company since its incorporation. No dividends have been declared by the subsidiaries now comprising the Group to their then equity owners throughout the Relevant Periods.

12. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful in respect of the Reorganisation and the preparation of the results for the Relevant Periods on the combined basis as disclosed in note 1 above.

13. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvements *RMB'000*	Total *RMB'000*
31 December 2005					
At 1 January 2005:					
Cost	6,781	469	328	2,411	9,989
Accumulated depreciation	(1,842)	(65)	(31)	(36)	(1,974)
Net carrying amount	4,939	404	297	2,375	8,015
At 1 January 2005, net of accumulated depreciation	4,939	404	297	2,375	8,015
Additions	4,065	796	850	480	6,191
Disposals	(49)	–	–	–	(49)
Depreciation provided during the year	(1,444)	(372)	(143)	(1,077)	(3,036)
At 31 December 2005, net of accumulated depreciation	7,511	828	1,004	1,778	11,121
At 31 December 2005:					
Cost	10,797	1,265	1,178	2,891	16,131
Accumulated depreciation	(3,286)	(437)	(174)	(1,113)	(5,010)
Net carrying amount	7,511	828	1,004	1,778	11,121
31 December 2006					
At 1 January 2006:					
Cost	10,797	1,265	1,178	2,891	16,131
Accumulated depreciation	(3,286)	(437)	(174)	(1,113)	(5,010)
Net carrying amount	7,511	828	1,004	1,778	11,121
At 1 January 2006, net of accumulated depreciation	7,511	828	1,004	1,778	11,121
Additions	2,730	76	270	297	3,373
Acquisition of a subsidiary *(note 27)*	11	–	281	–	292
Disposals	(322)	(69)	–	–	(391)
Transfer to a related company	(1,627)	(11)	–	–	(1,638)
Depreciation provided during the year	(2,104)	(547)	(277)	(252)	(3,180)
At 31 December 2006, net of accumulated depreciation	6,199	277	1,278	1,823	9,577
At 31 December 2006:					
Cost	11,187	1,178	1,729	3,188	17,282
Accumulated depreciation	(4,988)	(901)	(451)	(1,365)	(7,705)
Net carrying amount	6,199	277	1,278	1,823	9,577

	Computer equipment *RMB'000*	**Furniture, fixtures and office equipment** *RMB'000*	**Motor vehicles** *RMB'000*	**Leasehold improvements** *RMB'000*	**Total** *RMB'000*
31 December 2007					
At 1 January 2007:					
Cost	11,187	1,178	1,729	3,188	17,282
Accumulated depreciation	(4,988)	(901)	(451)	(1,365)	(7,705)
Net carrying amount	6,199	277	1,278	1,823	9,577
At 1 January 2007, net of accumulated depreciation	6,199	277	1,278	1,823	9,577
Additions	533	107	–	279	919
Transfer from/(to) related companies	(524)	705	3	(37)	147
Disposals	(20)	(9)	–	–	(29)
Disposal of subsidiaries *(note 28)*	(7)	–	(275)	–	(282)
Depreciation provided during the year	(1,655)	(187)	(601)	(1,057)	(3,500)
At 31 December 2007, net of accumulated depreciation	4,526	893	405	1,008	6,832
At 31 December 2007:					
Cost	11,156	1,981	1,448	3,430	18,015
Accumulated depreciation	(6,630)	(1,088)	(1,043)	(2,422)	(11,183)
Net carrying amount	4,526	893	405	1,008	6,832

14. GOODWILL

	RMB'000
Cost at 1 January 2005 and 2006	–
Acquisition of a subsidiary *(note 27)*	7,466
Cost and carrying amount at 31 December 2006 and 1 January 2007	7,466
Disposal of a subsidiary *(note 28)*	(7,466)
Cost and carrying amount at 31 December 2007	–

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the production of music programmes cash-generating unit for impairment testing:

Production of music programmes cash-generating unit

The recoverable amount of the production of music programmes 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 during the year ended 31 December 2007. Further details of the disposal are set out in note 28 below.

15. INTANGIBLE ASSETS

	Trademarks and licences *RMB'000*
31 December 2005	
Cost at 1 January 2005, net of accumulated amortisation	226
Additions	250
Amortisation provided during the year	(79)
At 31 December 2005	397
At 31 December 2005:	
Cost	513
Accumulated amortisation	(116)
Net carrying amount	397

	Trademarks and licences *RMB'000*
31 December 2006	
Cost at 1 January 2006, net of accumulated amortisation	397
Additions	166
Acquisition of a subsidiary *(note 27)*	6
Amortisation provided during the year	(99)
At 31 December 2006	470
At 31 December 2006:	
Cost	582
Accumulated amortisation	(112)
Net carrying amount	470
31 December 2007	
Cost at 1 January 2007, net of accumulated amortisation	470
Amortisation provided during the year	(110)
At 31 December 2007	360
At 31 December 2007:	
Cost	582
Accumulated amortisation	(222)
Net carrying amount	360

16. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

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

Particulars of the jointly-controlled entities during the Relevant Periods are as follows:

Name	Place and date of registration and type of legal entity	Registered capital	Percentage of interest attributable to the Company	Principal activities
Any Music Limited ("**Any Music**")*	PRC/contractual joint venture	US$3,620,000	29.67%	Development of telecommunications instant messaging and value-added services
北京中歌瞭亮音樂文化傳播有限公司 Beijing Zhongge Liaoliang Music Culture Broadcasting Co., Ltd. ("**Zhongge Liaoliang**")*	PRC/private limited liability company	RMB11,000,0000	49%	Production of music programmes

* The English name of this company is the direct translation of its Chinese name, as no English name has been registered or available.

Any Music was established in Shenzhen, 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 the investors unanimously despite the fact that 51% of its equity interest 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 for the year ended 31 December 2002.

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 ring-back tones and related music data at a total consideration of RMB8,500,000. The transfer of assets (the "**Transfer**") occurred and 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 recognised 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 for the year ended 31 December 2003, the unrealised 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 unrealised gain is realised by matching the depreciation and amortisation of these assets over their estimated useful lives of eight years made by Any Music and recognised as other income in the combined financial statements of the Group.

Portions of the unrealised gain arising from the Transfer amounting to approximately RMB241,000 and RMB241,000, had been realised and recognised as other income in the combined financial statements of the Group for the years ended 31 December 2005 and 2006, respectively.

On 31 March 2007, Any Music was disposed of by the Group to the other joint venturer of Any Music for a consideration of RMB13,224,000, the share of net assets by the Group at the date of disposal was RMB7,530,000. The disposal resulted in a gain on disposal of a jointly-controlled entity of RMB5,694,000 and realisation of the remaining unrealised gain arising from the Transfer of RMB1,450,000 in the year ended 31 December 2007.

On 20 December 2007, the Group disposed of its entire interest of Zhongge Feiyang. Accordingly, Zhongge Liaoliang, which was held as to 49% by Zhongge Feiyang and was accounted for as a jointly-controlled entity by the Group, was disposed of. Further details of the disposal are set out in note 28.

As at 31 December 2007, the Group had no jointly-controlled entity.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities shared by the Group:

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Share of the jointly-controlled entities' assets and liabilities:			
Current assets	5,428	12,116	–
Non-current assets	2,375	2,732	–
Current liabilities	(231)	(437)	–
Non-current liabilities	–	(895)	–
Net assets	7,572	13,516	–

	Year ended 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Share of the jointly-controlled entities' results:			
Revenue	3,166	4,615	2,796
Other income	–	269	60
	3,166	4,884	2,856
Total expenses	(3,245)	(3,982)	(2,893)
Tax	20	(348)	(310)
Profit/(loss) after tax	(59)	554	(347)

17. ACCOUNTS RECEIVABLE

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Accounts receivable	42,996	38,809	66,065
Impairment	(138)	(1,256)	(1,256)
	42,858	37,553	64,809

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to it within a period of 30 to 120 days. The receivable balances as at the balance sheet date were mainly due from China Mobile and China Unicom and their branches, subsidiaries and affiliates. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

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

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	–	138	1,256
Impairment losses recognised *(note 8)*	138	1,118	–
	138	1,256	1,256

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

An aged analysis of the accounts receivable as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Neither past due nor impaired:			
Within 1 month	19,328	16,446	29,091
1 to 2 months	11,651	10,300	13,658
2 to 3 months	5,649	5,615	7,282
3 to 4 months	2,548	2,079	6,100
Past due but not impaired:			
Over 4 months	3,682	3,113	8,678
	42,858	37,553	64,809

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

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

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments	3,099	7,473	7,738
Deposits and other receivables	16,956	10,972	15,201
Impairment	–	(1,387)	(1,387)
	20,055	17,058	21,552

During the year ended 31 December 2006, provision for impairment amounting to RMB1,387,000 was recognised (note 8) in respect of an individual debtor that was in financial difficulty.

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

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Equity investments at fair value through profit or loss as at 31 December 2007 were equity investments listed on the stock exchanges in Mainland China and, upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss and are stated at fair value.

20. CASH AND CASH EQUIVALENTS

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Cash and bank balances	56,491	123,179	130,199
Short term deposits	37,408	180	1,116
Cash and cash equivalents	93,899	123,359	131,315
Denominated in RMB	49,550	88,457	104,381
Denominated in other currencies	44,349	34,902	26,934
Cash and cash equivalents	93,899	123,359	131,315

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

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

21. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on the invoice date, is as follows:

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 month	3,553	3,665	8,576
1 to 3 months	3,717	6,390	7,073
4 to 6 months	1,677	1,798	702
Over 6 months	594	578	1,698
	9,541	12,431	18,049

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

22. OTHER PAYABLES AND ACCRUALS

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Other payables *(Note)*	5,336	13,121	8,125
Accruals	7,704	4,275	10,628
	13,040	17,396	18,753

Note: Included in the Group's other payables was a purchase consideration payable for the acquisition of Zhongge Feiyang amounting to RMB2,200,000 as at 31 December 2006 and 2007 (note 27). The amount was fully settled in January 2008.

23. DERIVATIVE FINANCIAL INSTRUMENTS/CONVERTIBLE REDEEMABLE PREFERRED SHARES

On 1 November 2005, A8 Music and all its then subsidiaries and the four then existing shareholders of A8 Music (collectively defined as the "**Then Existing Shareholders**") entered into a series A convertible redeemable preferred share purchase and subscription agreement (the "**TDF Agreement**") with a strategic investor, TDF Capital China II LP ("**TDF Capital China**"), a company incorporated in the Cayman Islands.

Pursuant to the TDF Agreement, TDF Capital China acquired a total of 500,000 shares of series A convertible redeemable preferred shares of A8 Music (the "**Preferred Shares**"). Of these 500,000 shares of the Preferred Shares, 350,000 shares were acquired from three of the Then Existing Shareholders at a cash consideration of US$3,500,000 and 150,000 shares were subscribed from A8 Music at a cash consideration of US$1,500,000. The 350,000 shares of Preferred Shares acquired by TDF Capital China from three of the Then Existing Shareholders were converted from ordinary shares held by those three of the Then Existing Shareholders at deemed fair value of US$10 each.

TDF Capital China was also granted the rights to subscribe for additional 400,000 shares (the "**TDF Option**") and 100,000 shares (the "**TDF Warrant**") of Preferred Shares at exercise prices of US$10 and US$14 per share, respectively. The TDF Option, which was transferable by TDF Capital China, was exercisable within 90 days from the grant date of the TDF Option. The TDF Warrant is exercisable within two years from the grant date of the TDF Warrant or upon closing of any subsequent fundraising (including an initial public offering of A8 Music). The TDF Option was exercised during the year ended 31 December 2005.

In addition, pursuant to the TDF Agreement, A8 Music granted an option to one of the Then Existing Shareholders, IDG Technology Venture Investments LP, to subscribe for additional 30,000 shares of Preferred Shares at an exercise price of US$10 per share (the "IDG Option'). The IDG Option was exercisable within 90 days from the grant date of the IDG Option and was exercised during the year ended 31 December 2005.

As at 31 December 2005, 2006 and 2007, there were 930,000 shares of Preferred Shares in issue.

The fair value of the embedded derivatives of the Preferred Shares was determined upon issuance, and the embedded derivatives are carried as a financial liability with any movement in fair value taken to the income statement at each balance sheet date. The remainder of the proceeds was allocated to the liability component of the Preferred Shares and is carried as a liability on the amortised cost basis.

The amounts of the derivative financial instruments on the face of the combined balance sheets as at 31 December 2005 and 2006 represent the fair value of the TDF Warrant and the embedded derivatives of the Preferred Shares. The TDF Warrant expired on 31 November 2007 and the amount of the derivative financial instruments on the face of the combined balance sheets as at 31 December 2007 represents the fair value of the embedded derivative of the Preferred Shares.

The Preferred Shares shall rank pari passu with the ordinary shares in all material respects and bear the following rights:

(i) Redemption

At the option of each of the individual holders of the outstanding Preferred Shares, A8 Music shall redeem the outstanding Preferred Shares held by such holder, at a redemption price for each Preferred Share equalling to 100% of the purchase price plus an interest on the sum at a cumulative interest rate of 5% per annum, measured from the date of issue through the date the redemption price is paid in full, plus all declared but unpaid dividends thereon up to the date of redemption (the "**Right of Redemption**"). The Right of Redemption may be exercised by the holders of the Preferred Shares after 30 November 2010.

(ii) Dividends

The holders of the Preferred Shares shall be entitled to receive dividends as and if declared by the directors of A8 Music prior to and in preference to any payment of any dividend on the ordinary shares and all other classes of shares of A8 Music, if any. Dividends on the Preferred Shares are cumulative. No dividend shall be paid on the ordinary shares at a rate greater than the rate at which dividends are paid on the Preferred Shares. In addition, the holders of the Preferred Shares shall be entitled to receive any non-cash dividends declared by the directors on an as-converted basis.

(iii) Conversion

Each Preferred Share is convertible into one ordinary share of A8 Music at any time at the sole discretion of the holder of such Preferred Share; subject to adjustment when any dilution of the share capital occurs. In addition, each Preferred Share will automatically be converted into one ordinary share of A8 Music upon the closing of an underwritten public offering of the ordinary shares of A8 Music. The standing of the lead underwriter of the public offering shall be reasonably acceptable to the holders of at least 50% of the Preferred Shares with aggregate proceeds (net of underwriters' discounts and commissions) to A8 Music in excess of US$60,000,000 and at a listing price which implies a total market capitalisation in excess of US$250,000,000.

(iv) Voting

Each Preferred Share shall carry such number of votes as is equal to the number of votes carried by the total number of ordinary shares then issuable upon conversion of all Preferred Shares into ordinary shares at the record date for determination of the shareholders' entitlement to vote on such matters, or if no such record date is established, at the date such vote is taken or any written consent of such shareholders is solicited. The holders of the Preferred Shares and the holders of ordinary shares shall vote together and not as a separate class, except as otherwise required by the memorandum and articles of association of A8 Music.

(v) Liquidation

In the event of liquidation, winding up or dissolution of A8 Music, including the sale of shares, merger, consolidation or other similar transactions of A8 Music in which its shareholders do not retain a majority of voting power in the surviving corporation, or a sale of all or substantially all the assets of A8 Music, the holders of the Preferred Shares shall be paid an amount equal to twice the purchase price per Preferred Share (as adjusted for share combinations, recapitalisation, dividends, splits, plus any accrued but unpaid dividends thereon) (the "**Preference Amount**"). All arrears or accruals of dividends are in priority to the holders of all other shares in the capital of A8 Music, and thereafter, the holders of the Preferred Shares shall be entitled on a deemed converted basis to participate ratably with the holders of other classes of shares in the residue (if any) of such surplus assets as shall remain after paying out the capital paid up on other shares.

If A8 Music has insufficient assets to permit payment of the Preference Amount in full to all holders of the Preferred Shares, then the assets of A8 Music shall be distributed ratably to the holders of the Preferred Shares in proportion to the Preference Amount each such holder of the Preferred Shares would otherwise be entitled to receive.

(vi) Restriction

There are provisions under the TDF Agreement that certain matters of A8 Music would require the approval of a 50% majority of holders of the Preferred Shares which include, inter alia, changes in the share capital structure and the respective rights, distribution of profits of A8 Music, creation and issuance of debts, issuance of options or warrants and disposal of interests in subsidiaries and associates.

In addition, there are also provisions that certain matters of A8 Music would require the approval of 75% of the majority of holders of the Preferred Shares which include, inter alia, the passing of any resolution for the liquidation; dissolution or winding-up of A8 Music; or the undertaking of any merger, reconstruction or liquidation exercise concerning A8 Music; or applying for the appointment of a receiver, manager or judicial manager or like officer for the liquidation, dissolution or winding-up of A8 Music or, its subsidiaries and associates; applying for a declaration of insolvency or appointing a liquidation committee; and/or effecting any merger, spin-off, consolidation, scheme of arrangement, reorganisation, sale, lease or transfer; or otherwise disposing of the whole or a substantial part of the undertaking goodwill or the assets of A8 Music.

24. DEFERRED TAX LIABILITIES

Deferred tax liabilities were provided in respect of tax applicable to the transfer of profits derived from Huadong Feitian to A8 Music through the Huadong Feitian Structure Contract Arrangements.

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
At beginning and end of year	813	813	813

The Group has tax losses arising in Mainland China and Hong Kong of RMB4,835,000, RMB9,876,000 and RMB13,319,000 for the years ended 31 December 2005, 2006 and 2007, respectively, that are available for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and is not considered probable that taxable profits will be available against which the tax losses can be utilised.

25. SHARE OPTIONS

Prime Century, a shareholder of A8 Music, and Prime Century's holding company, Ever Novel, have jointly adopted a share option deed dated 7 April 2004 and subsequently amended on 17 June 2004 (the "**Option Deed**") as part of the employee benefits offered to employees of the Group. Each option granted under this plan included two portions, the "Prime Century Option" and the "Ever Novel Option". Share options were granted to employees of the Group in order to enable them to subscribe for the newly issued shares in Prime Century or Ever Novel. The Prime Century Option can only be exercisable in the event that there is a listing of shares of A8 Music (or its holding company incorporated for the purpose of the listing and more than 50% of the voting rights at general meetings of such holding company will be controlled by Prime Century) on any recognised stock exchange ("**Exercisable Condition 1**"). The Ever Novel Option can only be exercisable in the event that a third party acquires more than 50% of the issued share capital of A8 Music ("**Exercisable Condition 2**"). Either the Prime Century Option or the Ever Novel Option shall immediately lapse on the date when the other option becomes exercisable in accordance with the respective terms of the Option Deed.

Movements of the share options, expressed as percentages of equity interests in Prime Century, are as follows:

	Percentage of equity interest in Prime Century
At 1 January 2005	21.57
Granted during the year	2
Lapsed during the year	(2)
At 31 December 2005 and 2006 and 1 January 2007	21.57
Lapsed during the year	(21.57)
At 31 December 2007	–

During the year ended 31 December 2004, all the share options under the Option Deed had been fully granted. The exercise price of these share options was approximately RMB320,000 for every 1% equity interest in Prime Century. The validity period of these share options is three years from the grant date (7 April 2004) of the share options to employees.

Share options amounting to approximately 8.4% of the equity interest in Prime Century were granted to Mr. Liu, who is a director of A8 Music.

In 2005, share options granted representing approximately 2% of the equity interest in Prime Century were returned to the option pool due to resignation of a relevant employee. These returned share options were subsequently granted to other employees at exercise prices ranging from approximately RMB320,000 to RMB860,000 for every 1% equity interest in Prime Century. The validity period of these share options is from the grant date (16 June 2005) of the share options to 6 April 2007.

As the Exercisable Condition 1 and Exercisable Condition 2 were not met before 6 April 2007, these options were not vested on 6 April 2007 and no share option expense was recognised during the Relevant Periods.

26. ISSUED CAPITAL AND RESERVES

(a) Issued capital

For the purpose of this report, the issued capital of the Group as at 31 December 2005, 2006 and 2007 represented the nominal value of the share capital of A8 Music.

(b) Merger reserve

Merger reserve of the Group represents the difference between the nominal value of the paid up capital of Huadong Feitian over the nominal value of A8 Music's shares which were issued as consideration for obtaining the control of Huadong Feitian at the time of the group reorganisation in 2004.

(c) Surplus contributions

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

(d) PRC statutory reserve

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

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

27. BUSINESS COMBINATION

During the year ended 31 December 2006, the Group acquired 85% and 15% interest in Zhongge Feiyang, which is engaged in the planning of literature and cultural activities, from independent third parties and Mr. Liu, respectively. The aggregate purchase consideration of RMB17,200,000, as agreed between all parties, for the acquisition was in the form of offsetting an other receivable of RMB12,720,000 and a cash consideration of RMB4,480,000, of which RMB2,280,000 was settled and RMB2,200,000 remained outstanding as at 31 December 2007. The acquisition generated a goodwill of RMB7,466,000 which was capitalised and tested for impairment at least annually.

The fair values of the identifiable assets and liabilities of Zhongge Feiyang as at the dates of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000	Previous carrying amount RMB'000
Property, plant and equipment	*13*	292	292
Intangible assets	*15*	6	6
Investment in a jointly-controlled entity		5,390	5,390
Prepayments and other receivables		370	370
Cash and bank balances		3,775	3,775
Other payables and accruals		(99)	(99)
		9,734	9,734
Goodwill on acquisition	*14*	7,466	
		17,200	
Satisfied by:			
Cash		2,280	
Decrease in an other receivable		12,720	
Increase in an other payable		2,200	
		17,200	

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

	RMB'000
Cash consideration	(2,280)
Cash and bank balances acquired	3,775
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	1,495

Since its acquisition, Zhongge Feiyang contributed losses of RMB269,000 and RMB107,000 to the combined profits of the Group for the years ended 31 December 2006 and 2007, respectively.

Had the business combination taken place at the beginning of 2006, the combined revenue and profit for the year of the Group would have been decreased by nil and RMB656,000, respectively.

On 20 December 2007, the Group entered into an equity transfer agreement pursuant to which the entire interest in Zhongge Feiyang was disposed of at a cash consideration of RMB17,200,000. Further details of the disposal are set out in note 28.

28. DISPOSAL OF SUBSIDIARIES

On 25 June 2007, the Group disposed of its entire interest in a wholly-owned subsidiary, Wangle Tianxia, to two employees of the Group for a total consideration of RMB1,000,000 (note 31(b)(iii)).

On 20 December 2007, the Group disposed of its entire interest in a wholly-owned subsidiary, Zhongge Feiyang, to an employee of a company wholly-owned by Mr. Liu (the "**Acquirer**") for a total consideration of RMB17,200,000 (note 31(b)(iii)). Pursuant to a trust arrangement enacted on 20 December 2007, the Acquirer holds the interest in Zhongge Feiyang on behalf of Mr. Liu and Mr. Liu is the beneficial owner of such interest.

	Notes	*RMB'000*
Net assets disposed of:		
Property, plant and equipment	*13*	282
Interests in a jointly-controlled entity		5,639
Due from a related company		3,558
Prepayments, deposits and other receivables		172
Cash and bank balances		1,016
Other payables and accruals		(85)
		10,582
Goodwill released	*14*	7,466
Gain on disposal of subsidiaries	*6*	152
		18,200
Satisfied by:		
Due from a related party		18,171
Other receivables		29
		18,200

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

	RMB'000
Cash and bank balances disposed of and net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(1,016)

29. MAJOR NON-CASH TRANSACTION

As further detailed in note 23, 350,000 shares of the 930,000 shares of Preferred Shares issued by A8 Music during the year ended 31 December 2005 were converted from ordinary shares at deemed fair value of US$10 (equivalent of RMB79.56) each. The conversion has been accounted for as repurchase of ordinary shares and issue of Preferred Shares at the aggregate value of RMB45,864,000.

30. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements with lease terms ranging from one to three years. At each of the balance sheet dates during the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases in respect of buildings as follows:

	31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within one year	3,129	2,998	3,216
In the second to fifth years, inclusive	5,208	3,284	2,020
	8,337	6,282	5,236

31. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties. The transactions, except for the compensation of key management personnel of the Group in note (f) or otherwise specified, were all non-continuing transactions and were discontinued as at 31 December 2007. In the opinion of the directors of the Company, all of these transactions were conducted on normal commercial terms and the pricing of these transactions was determined based on mutual negotiation and agreement between the Group and the related parties:

(a) Cooperation agreement with a jointly-controlled entity

On 10 November 2002, Huadong Feitian entered into a cooperation agreement with Any Music for the development of short message services and wireless application protocol services. Both companies are entitled to certain proportion of the revenue derived from such operations according to a predetermined formula ("**Revenue Sharing**"). Huadong Feitian is responsible for collecting the gross revenue derived from the operations on behalf of Any Music and remitting to Any Music the amount of the Revenue Sharing. The contract expired on 1 November 2005 and the Revenue Sharing discontinued since then. For the year ended 31 December 2005, the Revenue Sharing amount paid and payable to Any Music was approximately RMB3,205,000. No Revenue Sharing amounts were paid to Any Music in the years ended 31 December 2006 and 2007. Any Music was disposed of by the Group on 31 March 2007.

(b) Amounts due from related parties

	Balance at beginning of year *RMB'000*	Advances during the year *RMB'000*	Repayments during the year *RMB'000*	Balance at end of year *RMB'000*	Maximum outstanding balance during the year *RMB'000*
31 December 2005					
Registered Owners *(note (i))*	1,103	2,678	(11)	3,770	
Mr. Liu	699	2,455	–	3,154	3,154
Ms. Cui	221	196	(11)	406	406
Mr. Wang	183	27	–	210	210
Shengang Chanxueyan *(note (iv))*	9,000	13,500	(22,500)	–	22,500
Shenzhen Xinlide Electronic Co., Ltd. *(note (v))*	–	3,500	(3,500)	–	3,500
Amount due from Mr. Zhou Minjian *(note (vi))*	179	–	(179)	–	179
	10,282	19,678	(26,190)	3,770	
31 December 2006					
Registered Owners *(note (i))*:	3,770	22,294	(3,354)	22,710	
Mr. Liu *(note (ii))*	3,154	22,294	(2,889)	22,559	22,559
Ms. Cui	406	–	(255)	151	406
Mr. Wang	210	–	(210)	–	210
Due from Jiangsu TVT Co., Ltd. *(note (vii))*	–	201	–	201	201
	3,770	22,495	(3,354)	22,911	
31 December 2007 *(note ix)*					
Registered Owners *(note (i))*:	22,710	26,690	(1,804)	47,596	
Mr. Liu *(notes (ii) and (iii))*	22,559	26,690	(1,804)	47,445	47,445
Ms. Cui	151	–	–	151	151
Due from Jiangsu TVT Co., Ltd *(note (vii))*	201	356	(557)	–	557
Due from Wangle Tianxia *(note (viii))*	–	12,112	–	12,112	12,112
	22,911	39,158	(2,361)	59,708	

Notes:

(i) During the Relevant Periods, the Group paid on behalf of the Registered Owners certain expenses, and the amounts were unsecured, interest-free and had no fixed terms of repayment.

(ii) Pursuant to a board resolution of A8 Music dated 20 December 2005, the board of directors resolved to carry out the development of the music database business (the "**Music Database Business**") independently from the existing mobile value-added services of the Group. The Music Database Business was to be transferred to a company which is outside the Group and controlled by the shareholders of A8 Music (the "**Related Company for the Music Database Business**"). Before the establishment of the Related Company for the Music Database Business, the Music Database Business was to be operated by one of the Group companies (the "**Operating Company**") on behalf of the Related Company for the Music Database Business. The Music Database Business was transferred to the Related Company for the Music Database Business on 1 July 2007. A monthly management fee of RMB150,000, which is determined based on a percentage sharing of the offices expenses incurred, was to be charged by the Group to the Related Company for the Music Database Business.

In 2006, the Operating Company set up a branch in Beijing (the "**BJ Branch**") and six business units in Shenzhen (the "**SZ Business Units**") for the operations of the Music Database Business. The BJ Branch and the SZ Business Units were operated by personnel independent from those operating the existing mobile value-added services of the Group. Transactions of the BJ Branch and the SZ Business Units were recorded separately from the rest of the other business units of the Group. For the year ended 31 December 2006 and the six months ended 30 June 2007, the Operating Company paid expenses on behalf of the Related Company for the Music Database Business of RMB18,902,000 and RMB6,365,000, respectively. For the year ended 31 December 2006, the Operating Company acquired assets, mainly included property, plant and equipment on behalf of the Related Company for the Music Database Business of RMB1,529,000. In addition, management fees of RMB1.8 million and RMB0.9 million were charged for the year ended 31 December 2006 and the six months ended 30 June 2007, respectively.

Mr. Liu, being a director of the Related Company for the Music Database Business, agreed to bear all the costs, on behalf of the shareholders of the Related Company for the Music Database Business before all the proper documentation of the reorganisation of the Group has been completed.

(iii) Included in the advances to Mr. Liu during the year ended 31 December 2007 were sales proceeds of RMB1,000,000 and RMB17,200,000 for the disposal of Wangle Tianxia and Zhongge Feiyang, respectively.

On 20 December 2007, the Group disposed of its entire interest in a wholly-owned subsidiary, Zhongge Feiyang, to the Acquirer for a total consideration of RMB17,200,000. Pursuant to a trust arrangement enacted on 20 December 2007, the Acquirer holds the interest in Zhongge Feiyang on behalf of Mr. Liu. Accordingly, the sales proceeds were receivable from Mr. Liu.

(iv) On 1 April 2004, Huadong Feitian entered into an entrustment agreement with Shenzhen Shengang Chanxueyan Enterprise Investments Co., Ltd. ("**Shengang Chanxueyan**"), an investment holding company held by one of the Registered Owners, Ms. Cui, whereby Shengang Chanxueyan was entrusted to invest a sum of RMB9,000,000 (the "**Investment Sum**") into the equity market of the PRC for Huadong Feitian. The entrustment period was one year from 1 April 2004 to 1 April 2005 and it was renewed on 1 December 2004 for another year up to 1 April 2006 upon reaching its original maturity.

As stipulated in the entrustment agreement, any gain or loss arising from the investment made would be shared between Huadong Feitian and Shengang Chanxueyan according to a predetermined ratio. In accordance with a legal opinion issued by the legal advisor of the Company dated [●], the entrustment agreement does not violate any existing PRC laws.

With a view to giving protection to Huadong Feitian, a supplementary agreement was entered into among Huadong Feitian, Shengang Chanxueyan and Ms. Cui on 15 December 2004 such that the Investment Sum was converted to an advance made to Shengang Chanxueyan with interest levied at a rate of 2.7% per annum. In addition, Ms. Cui and Shengang Chanxueyan also agreed to provide a joint and several personal guarantee on the Investment Sum to Huadong Feitian. Top Result, a shareholder of A8 Music, which is beneficially owned by Ms. Cui, also undertakes to pledge to A8 Music its entitlement to dividends to be declared by A8 Music.

The directors of A8 Music consider that the substance of the above arrangements is in fact an advance made by A8 Music to Shengang Chanxueyan with guarantee and pledge granted by Ms. Cui and her related company. Accordingly, the amount of the Investment Sum outstanding as at 1 January 2005 of RMB9,000,000 was presented as an amount due from a related party in the combined balance sheets of the Group. The Investment Sum of RMB9,000,000 was repaid to Huadong Feitian during the year ended 31 December 2005.

In January and June 2005, Kuaitonglian and Huadong Feitian entered into another two entrustment agreements with Shengang Chanxueyan with contract amounts of RMB8,500,000 and RMB5,000,000, respectively, for investing into equity market of the PRC. In accordance with a legal opinion issued by the legal advisor of the Company dated [●], the above two entrustment agreements do not violate any existing PRC laws.

For the amount of RMB8,500,000 entrusted by Kuaitonglian to Shengang Chanxueyan, a supplementary agreement was entered into among Kuaitonglian, Shengang Chanxueyan and Ms. Cui on 9 January 2005 whereby the amount was converted to an advance made to Shengang Chanxueyan by Kuaitonglian. Interest is levied at a rate of 2.7% per annum for a period of one year from 4 January 2005 to 3 January 2006. In addition, another pledge agreement was entered into among A8 Music, Top Result and Ms. Cui on 10 January 2005. The amount was fully settled during the year ended 31 December 2005.

As for the amount of RMB5,000,000 entrusted by Huadong Feitian to Shengang Chanxueyan, the balance was repaid in full in cash to Huadong Feitian by Shengang Chanxueyan in August 2005.

During the year ended 31 December 2005, Shengang Chanxueyan repaid the contract amounts totalling RMB22,500,000 to Huadong Feitian. Huadong Feitian has waived the interest of RMB503,000 due from Shengang Chanxueyan.

(v) Shenzhen Xinlide Electronic Co., Ltd. is an investment holding company owned by one of the Registered Owners, Mr. Liu.

In 2005, a loan of RMB3,500,000 was made to Shenzhen Xinlide Electronic Co., Ltd. with a repayment period of six months and interest was levied at a rate of 5.5% per annum. The amount had been repaid in full by the end of 2005 and the interest of RMB96,000 was waived.

(vi) Mr. Zhou Minjian is a minority owner of Yunhai Qingtian. The amount represents a loan extended to him, which was unsecured, interest-free and repayable on demand. The loan has been fully repaid by the end of 2005.

(vii) Jiangsu TVT Co., Ltd. a company engaging in the mobile value-added services, is owned by Mr. Huang Cinan and Ms. Gao Keyin who were executives of the Group. The outstanding balance as at 31 December 2006 was unsecured, interest-free and fully repaid by the end of 2007.

(viii) Wangle Tianxia was a then subsidiary being disposed of by the Group on 25 June 2007 to two employees of the Group (note 28). The advance was made for the daily operation of Wangle Tianxia. The outstanding balance as at 31 December 2007 was unsecured, interest-free and had no fixed terms of repayment.

(ix) The amounts due from Mr. Liu, Ms. Cui and Wangle Tianxia of RMB47,445,000, RMB151,000 and RMB12,112,000 as at 31 December 2007 have been subsequently settled in February 2008.

(c) Amount due to a related party

The balance as at 31 December 2007 represents RMB3,558,000 payable to Zhongge Feiyang, a then subsidiary being disposed of by the Group on 20 December 2007 (note 28). The amount was unsecured, interest-free and had been subsequently settled in February 2008.

(d) Amount due to a minority shareholder

The balance as at 31 December 2006 represents an amount lent to Mr. Xu Xiaofeng, who is the minority shareholder of Changmeng Yinyue, for the business operations of Changmeng Yinyue.

(e) Amount due to a jointly-controlled entity

The balance as at 31 December 2005 represents the accrued Revenue Sharing amounts which were derived from the operations of Any Music collected by Huadong Feitian pursuant to the provisions under the cooperation agreement between the two parties mentioned in note 31(a) above.

(f) Compensation of key management personnel of the Group

	Year ended 31 December 2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Short term employee benefits	3,524	5,019	4,255
Post-employment benefits	193	222	123
Total compensation paid to key management personnel	3,717	5,241	4,378

32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

	31 December 2005	2006	2007		
	Loans and receivables	Loans and receivables	Loans and receivables	Financial assets at fair value through profit or loss	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivable	42,858	37,553	64,809	–	64,809
Amounts due from related parties	3,770	22,911	59,708	–	59,708
Financial assets included in prepayments, deposits and other receivables	20,055	17,058	21,552	–	21,552
Equity investments at fair value through profit or loss	–	–	–	5,711	5,711
Cash and cash equivalents	93,899	123,359	131,315	–	131,315
	160,582	200,881	277,384	5,711	283,095

Financial liabilities

	31 December		
	2005	**2006**	**2007**
	Financial liabilities at amortised cost	**Financial liabilities at amortised cost**	**Financial liabilities at amortised cost**
	RMB'000	*RMB'000*	*RMB'000*
Accounts payable	9,541	12,431	18,049
Other payables	5,336	13,121	8,125
Amount due to a related party	–	–	3,558
Amount due to a minority shareholder	–	272	–
Amount due to a jointly-controlled entity	264	–	–
Convertible redeemable preferred shares	64,719	69,547	68,510
	79,860	95,371	98,242

The derivative financial instruments as at 31 December 2005 and 2006, amounting to RMB4,002,000 and RMB3,067,000, respectively, were stated at fair value.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk factors

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

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk, liquidity risk and equity price risk. The board of directors review and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 3 above.

(a) Foreign currency risk

The Group mainly operates in Mainland China with most of the transactions settled in RMB and the Group's derivative financial liabilities and convertible redeemable preferred shares are denominated in United States Dollars ("**US$**"). RMB is not freely convertible into other foreign currencies. The conversion of RMB denominated balances into foreign currencies is subject to the rates and regulations of foreign exchange control promulgated by the PRC government.

As the Group's exposure to foreign currency rate risk is low, it has not used any forward contracts, currency borrowings or other means to hedge its exposure.

As at 31 December 2005, 2006 and 2007, if RMB had strengthened or weakened by 5% against the US$ with all other variables held constant, liabilities would have been RMB3,436,000, RMB3,631,000 and RMB3,325,000 lower or higher for each of the balance sheet dates and profit before tax would be RMB15,000, RMB247,000, and RMB246,000 higher or lower for each of the years ended 31 December 2005, 2006 and 2007, recpectively, mainly as a result of foreign exchange gains/losses on translation of interest expenses on the convertible redeemable preferred shares.

(b) Interest rate risk

The Group has no debt obligations with a floating interest rate. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's exposure to changes in market interest rates is mainly attributable to its deposits placed with banks. The Group has not used any interest rate swaps to hedge its exposure.

As at 31 December 2005, 2006 and 2007, if interest rate on bank deposits had been 10 basis points higher or lower with all other variables held constant, profit before tax would be RMB17,000, RMB197,000, and RMB158,000 higher or lower for each of the years ended 31 December 2005, 2006 and 2007, respectively, as a result of the higher or lower interest income.

(c) Credit risk

The maximum credit risk exposure of the Group is the gross carrying value of each of its financial assets. As mentioned in note 3 above, the Mobile and Telecom Service Fees and the revenue from providing value-added services of the Group are substantially derived from co-operative arrangements with China Mobile and China Unicom (the "**Mobile Telecommunications Operators**"). If the strategic relationship with either of the Mobile Telecommunications Operators is terminated or scaled-back, or if the Mobile Telecommunications Operators alter the co-operative arrangements, the Group's mobile and telecommunications and internet value-added services might be adversely affected. Since the Group mainly trades with the Mobile Telecommunications Operators, which are recognised and creditworthy third parties, the directors of the Company do not consider these counterparties to be of significant credit risk. Apart from this, the directors of the Company do not consider there are significant concentrations of credit risk.

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

(d) Liquidity risk

Except for the convertible redeemable preferred shares which may be exercised by its holders after 30 November 2010, the Group's financial liabilities are mature in less than one year as at the balance sheet date. The Group manages liquidity risk by maintaining a sufficient amount of bank deposits to ensure operational requirements are fulfilled.

(e) Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the level of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual listed equity investments classified as equity investments at fair value through profit or loss (note 19). The Group's listed equity investments as at 31 December 2007 are listed on the Shenzhen and Shanghai stock exchanges and are valued at quoted market prices at the balance sheet date. The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year ended 31 December 2007, and their respective highest and lowest points during the year were as follows:

	31 December 2007	**Highest 2007**	**Lowest 2007**
Shenzhen – A Share Index	1,520	1,629	572
Shanghai – A Share Index	5,521	6,395	2,744

The following table demonstrates the sensitivity to every 5% change in the fair values of the listed equity investments, with all other variables held constant and before any impact on tax, based on their carrying amount at 31 December 2007.

	Carrying amount of listed equity investments	Increase/decrease in profit before tax
	RMB'000	*RMB'000*
31 December 2007		
Equity investments listed in:		
Shenzhen	394	19
Shanghai	5,603	267
	5,997	286

Fair value estimation

The Group's financial assets include cash and cash equivalents, accounts receivable, amounts due from related parties and prepayments, deposits and other receivables; and financial liabilities include accounts payable, other payables and accruals, amounts due to a related party, a minority shareholder and a jointly-controlled entity, derivative financial instruments and convertible redeemable preferred shares.

The equity investments at fair value through profit or loss and the derivative financial instruments have been measured at fair value. The carrying amounts of cash and cash equivalents, accounts receivable, amounts due from related parties, prepayments, deposits and other receivables, accounts payable, other payables and accruals, and amounts due to a related party, a minority shareholder and a jointly-controlled entity approximate to their fair values because of the immediate or short term maturity of these financial instruments.

The carrying amount of the convertible redeemable preferred shares has no significant difference compared to its fair value.

Capital management

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

The Group monitors capital on the basis of the net cash over the debt position, which is cash and cash equivalents less accounts payable, other payables and accruals, amounts due to a related party, a minority shareholder and a jointly-controlled entity, derivative financial instruments and convertible redeemable preferred shares. The amounts of the net cash over debt position as at 31 December 2005, 2006 and 2007 were as follows:

	At 31 December		
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	93,899	123,359	131,315
Accounts payable	(9,541)	(12,431)	(18,049)
Other payables and accruals	(13,040)	(17,396)	(18,753)
Amount due to a related party	–	–	(3,558)
Amount due to a minority shareholder	–	(272)	–
Amount due to a jointly-controlled entity	(264)	–	–
Derivative financial instruments	(4,002)	(3,067)	–
Convertible redeemable preferred shares	(64,719)	(69,547)	(68,510)
Net cash over debt position	2,333	20,646	22,445

III. NET ASSETS OF THE COMPANY

The Company was incorporated as A8 Music International Limited in the Cayman Islands on 2 October 2007 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands. Pursuant to a special resolution dated 7 November 2007 and approved by the Registrar of Companies of the Cayman Islands, the name of the Company was changed to A8 Digital Music Holdings Limited on 7 November 2007. The Company was incorporated with an authorised share capital of HK$380,000 divided into 3,800,000 shares of ordinary shares of HK$0.10 each. One share of HK$0.10 was issued and allocated to Mr. Liu on 2 October 2007.

Pursuant to the Reorganisation, the Company became the holding company of the Group on [●]. Had the Reorganisation been completed on 31 December 2007, the net assets of the Company as at that date would have been approximately RMB181,484,000, representing the Company's investments in its subsidiaries.

IV. SUBSEQUENT EVENTS

(a) On [●], each of the Company's 3,800,000 shares with par value of HK$0.10 each was subdivided into 10 shares of HK$0.01 each. The number of authorised and issued shares increased from 3,800,000 to 38,000,000 and from 1 to 10, respectively.

Immediately after the subdivision, the Company increased its authorised share capital from HK$380,000 to HK$30,000,000 by the creation of 2,962,000,000 shares with par value of HK$0.01 each which rank pari passu in all respects with the existing shares in issue on [●].]

(b) On [●], A8 Music declared a special dividend of RMB100,000,000 to its then shareholder. Such dividend was not accounted for in the combined financial statements during the Relevant Periods and was settled in [●].

V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 December 2007.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong