我的音乐无处不在!
My Music Everywhere!

INTERIM REPORT 2009

A8 DIGITAL MUSIC HOLDINGS LIMITED
A8電媒音樂控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00800

Contents

CORPORATE INFORMATION

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Mr. Liu Xiaosong
Mr. Lin Yizhong
Ms. Ho Yip, Betty

NON-EXECUTIVE DIRECTOR

Mr. Li Wei

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yiu Kwong
Mr. Hui, Harry Chi
Mr. Song Yong Hua

AUDIT COMMITTEE

Mr. Chan Yiu Kwong *(Chairman)*
Mr. Hui, Harry Chi
Mr. Song Yong Hua

REMUNERATION COMMITTEE

Mr. Liu Xiaosong *(Chairman)*
Mr. Song Yong Hua
Mr. Hui, Harry Chi

AUTHORISED REPRESENTATIVES

Mr. Liu Xiaosong
Ms. Ho Yip, Betty

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ms. Ho Yip, Betty *HKICPA, AICPA*

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Stephenson Harwood & Lo

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COMPLIANCE ADVISOR

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STOCK CODE

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The board (the "**Board**") of directors (the "**Directors**") of A8 Digital Music Holdings Limited (the "**Company**") is pleased to present the unaudited interim condensed consolidated financial statements ("**Interim Accounts**") of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2009 together with the comparative figures for the corresponding period in 2008 as follows. The Interim Accounts have not been reviewed by the Company's auditors but they have been reviewed by the audit committee of the Company:

INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

		For the six months ended 30 June	
		2009	2008
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
Revenue		**290,756**	329,404
Business tax		**(4,514)**	(5,659)
Net revenue	*3*	**286,242**	323,745
Cost of services provided		**(173,826)**	(187,960)
Gross profit		**112,416**	135,785
Other income and gains, net	*3*	**8,072**	1,697
Selling and marketing expenses		**(43,194)**	(61,832)
Administrative expenses		**(25,681)**	(16,320)
Other expenses		**(81)**	(11,773)
Finance costs	*4*	**–**	(1,883)
PROFIT BEFORE TAX	*5*	**51,532**	45,674
Tax	*6*	**(6,502)**	(7,713)
PROFIT FOR THE PERIOD		**45,030**	37,961
Attributable to:			
Equity holders of the Company		**44,895**	37,026
Minority interests		**135**	935
		45,030	37,961
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*8*		
Basic (RMB per share)		**0.10**	0.11
Diluted (RMB per share)		**0.10**	0.11

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	RMB'000	*RMB'000*
Profit for the period	**45,030**	37,961
Exchange realignment	**29**	(1,027)
Total comprehensive income for the period, net of tax	**45,059**	36,934
Attributable to:		
Equity holders of the Company	**44,924**	35,999
Minority interests	**135**	935
	45,059	36,934

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

	Notes	30 June 2009 (Unaudited) RMB'000	31 December 2008 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**5,890**	6,328
Prepaid land lease payments		**28,290**	28,583
Intangible assets		**593**	703
Deferred tax assets		**4,157**	4,899
Total non-current assets		**38,930**	40,513
CURRENT ASSETS			
Accounts receivable	9	**85,463**	101,657
Prepayments, deposits and other receivables		**24,207**	19,572
Equity investments at fair value through profit or loss		**2,998**	1,949
Short term deposits		**82,466**	43,900
Cash and bank balances		**267,456**	271,743
Total current assets		**462,590**	438,821
CURRENT LIABILITIES			
Accounts payable	10	**38,974**	58,617
Other payables and accruals		**33,058**	39,121
Tax payable		**11,368**	10,997
Deferred income		**1,000**	4,000
Total current liabilities		**84,400**	112,735
NET CURRENT ASSETS		**378,190**	326,086
TOTAL ASSETS LESS CURRENT LIABILITIES		**417,120**	366,599
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**813**	813
Total non-current liabilities		**813**	813
Net assets		**416,307**	365,786
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	11	**3,983**	3,944
Reserves		**411,539**	361,192
		415,522	365,136
Minority interests		**785**	650
Total equity		**416,307**	365,786

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to equity holders of the Company												
	Issued capital	Share premium account	Merger reserve	Surplus contributions	Employee share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Total	Minority interests	Total equity
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 11)	*(note 11)*											
As at 1 January 2009	**3,944**	**181,562**	**29,135**	**10,522**	**7,089**	**2,379**	**9,769**	**13,102**	**4,422**	**103,212**	**365,136**	**650**	**365,786**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**29**	**–**	**–**	**–**	**44,895**	**44,924**	**135**	**45,059**
Exercise of share options	**39**	**5,556**	**–**	**–**	**(2,799)**	**–**	**–**	**–**	**–**	**–**	**2,796**	**–**	**2,796**
Equity-settled share option arrangement	**–**	**–**	**–**	**–**	**2,666**	**–**	**–**	**–**	**–**	**–**	**2,666**	**–**	**2,666**
As at 30 June 2009	**3,983**	**187,118**	**29,135**	**10,522**	**6,956**	**2,408**	**9,769**	**13,102**	**4,422**	**148,107**	**415,522**	**785**	**416,307**
At 1 January 2008	512	–	28,680	10,522	–	2,596	800	6,829	4,422	127,123	181,484	20	181,504
Total comprehensive income	–	–	–	–	–	(1,027)	–	–	–	37,026	35,999	935	36,934
Distribution to a then shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	(97,808)	(97,808)	–	(97,808)
Reorganisation	(455)	–	455	–	–	–	–	–	–	–	–	–	–
Conversion of preferred shares	8	66,218	–	–	–	–	–	–	–	–	66,226	–	66,226
Capitalisation issue of shares	3,116	(3,116)	–	–	–	–	–	–	–	–	–	–	–
Issue of shares in connection with the listing	707	133,628	–	–	–	–	–	–	–	–	134,335	–	134,335
Share issue expenses	–	(15,385)	–	–	–	–	–	–	–	–	(15,385)	–	(15,385)
Remuneration shares issued	5	(5)	–	–	–	–	–	–	–	–	–	–	–
At 30 June 2008	3,893	181,340	29,135	10,522	–	1,569	800	6,829	4,422	66,341	304,851	955	305,806

INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	**29,946**	45,053
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	**(37,057)**	53,532
NET CASH INFLOW FROM FINANCING ACTIVITIES	**2,795**	21,144
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(4,316)**	119,729
Cash and cash equivalents at beginning of period	**271,743**	131,315
Effect of foreign exchange rate changes, net	**29**	(5,162)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**267,456**	245,882
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**122,986**	244,815
Short term deposits with initial terms of three months or less	**144,470**	1,067
	267,456	245,882

NOTES TO UNAUDITED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited Interim Accounts have been prepared in accordance with International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). These unaudited Interim Accounts should be read in conjunction with the audited financial statements for the year ended 31 December 2008, which have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

These unaudited Interim Accounts have been prepared under the historical cost convention, except for equity investments at fair value through profit or loss which has been measured at fair value.

Impact of new and revised International Financial Reporting Standards

The accounting policies and basis of preparation adopted in the preparation of the unaudited Interim Accounts are the same as those used in the annual financial statements for the year ended 31 December 2008, except in relation to the following new and revised IFRSs, and International Financial Reporting Interpretations Committee ("**IFRIC**") interpretations that affect the Group and are adopted for the first time for the current period's financial statements:

IFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations
IFRS 7 Amendments	Amendments to HKFRS 7 Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of Financial Statements
IAS 10	Events after the Balance Sheet Date
IAS 18	Revenue
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only, both of which include a requirement for the counterparty to complete a specific period of service. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

The IFRS 7 Amendments requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurement is now required, as well as significant transfer between level 1 and level 2 fair value measurements. The amendments also clarify the requirement for liquidity risk disclosures.

IFRS 8 specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements (including changes to the titles of the main statements). The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. This revised standard also requires an entity to include three "statements of financial position" whenever the entity applies an accounting policy retrospectively or makes a retrospective restatement, or when it makes a reclassification. The revised standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other IFRSs.

IAS 10 clarifies that if dividends are declared (i.e. the dividends are appropriately authorised and no longer at the discretion of the entity) after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with IAS 1 Presentation of Financial Statements.

IAS 18 clarifies that the recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided. Therefore, it is necessary to distinguish between fees that are an integral part of the effective interest rate of a financial instrument, fees that are earned as services are provided, and fees that are earned on the execution of a significant act.

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

International Accounting Standards Board ("**IASB**") has issued its first Improvements to IFRSs which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The Group adopts the following amendments to IFRSs from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

(a) IFRS 7 Financial Instruments: Disclosures: It removes the reference to "total interest income" as a component of finance costs.

(b) IAS 1 Presentation of Financial Statements: It clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.

(c) IAS 27 Consolidated and Separate Financial Statements: It requires that when a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

(d) IAS 28 Investments in Associates: It clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

(e) IAS 36 Impairment of Assets: When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, which shall be consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

Adoption of these new IFRS interpretations did not have any material effect on the financial position or performance of the Group, nor resulted in restatement of comparative figures.

2. SEGMENT INFORMATION

Over 90% of the Group's revenue and assets are generated from providing music and non-music services to mobile users and over 90% of the Group's revenue is derived from customers based in Mainland China. The Board of the Company considers 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*.

3. REVENUE, OTHER INCOME AND GAINS, NET

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

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

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
		(Restated)
Revenue		
Ringtone services	**33,161**	36,134
Ringback tone services	**88,015**	167,503
IVR music	**62,453**	33,622
Other music related services	**8,613**	6,789
Non-music related services	**98,514**	85,356
	290,756	329,404
Less: Business tax	**(4,514)**	(5,659)
Net revenue	**286,242**	323,745
Other income and gains, net		
Government grant	**3,200**	1,000
Interest income	**2,532**	583
Gain on disposal of investments at fair value through profit or loss	**–**	59
Fair value gain on investments at fair value through profit and loss	**1,065**	–
Others	**1,275**	55
	8,072	1,697

4. FINANCE COSTS

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest expenses on convertible redeemable preferred shares	**–**	1,661
Amortisation of transaction costs	**–**	222
	–	1,883

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Depreciation	**1,434**	1,507
Amortisation of intangible assets	**110**	59
Amortisation of prepaid land lease payments	**293**	–

6. TAX

An analysis of income tax charges for the six months ended 30 June 2009 and 2008 are shown as follows:

	For the six months ended 30 June	
	2009	2008
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Group		
Current – PRC		
Charge for the period	**9,409**	7,713
Tax exemption and refund in prior years	**(3,649)**	–
Deferred	**742**	–
	6,502	7,713

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the six months ended 30 June 2009 and 2008 respectively.

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.

7. INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the six months ended 30 June 2009 (2008: Nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share amount for the six months ended 30 June 2009 is based on the Group's profit attributable to equity holders of the Company of RMB44,895,000 (2008: RMB37,026,000) and the weighted average number of ordinary shares in issue during the six months ended 30 June 2009 of 447,721,094 (2008: 327,777,000).

The calculation of diluted earnings per share for the six months ended 30 June 2009 is based on the Group's profit attributable to equity holders of the Company of RMB44,895,000 (2008: RMB37,026,000) as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the 447,721,094 (2008: 327,777,000) ordinary shares in issue during the six months ended 30 June 2009, as used in the basic earnings per share calculation, and the weighted average of 8,986,840 (2008: 2,565,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares.

9. ACCOUNTS RECEIVABLE

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:

	30 June 2009 (Unaudited) *RMB'000*	31 December 2008 (Audited) *RMB'000*
Neither past due nor impaired:		
Within 1 month	**44,095**	45,314
1 to 2 months	**19,955**	23,201
2 to 3 months	**10,776**	16,797
3 to 4 months	**3,267**	5,924
Past due but not impaired:		
4 to 6 months	**3,520**	7,806
Over 6 months	**3,850**	2,615
	85,463	101,657

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

10. ACCOUNTS PAYABLE

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

	30 June 2009 (Unaudited) *RMB'000*	31 December 2008 (Audited) *RMB'000*
Within 1 month	**14,286**	18,378
1 to 3 months	**11,752**	21,927
4 to 6 months	**5,556**	12,554
Over 6 months	**7,380**	5,758
	38,974	58,617

11. SHARE CAPITAL

Shares

	30 June 2009 (Unaudited) *RMB'000*	31 December 2008 (Audited) *RMB'000*
Authorised:		
3,000,000,000(2008: 3,000,000,000) ordinary shares of HK$0.01 each (2008: HK$0.01 each)	**26,513**	26,513
Issued and fully paid:		
450,758,560 (2008: 446,288,000) ordinary shares of HK$0.01 each (2008: HK$0.01 each)	**3,983**	3,944

A summary of the transactions during the six months ended 30 June 2009 in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares (Unaudited)	Nominal value of ordinary shares (Unaudited)	Share premium (Unaudited)	Equivalent nominal value of ordinary shares (Unaudited)	Equivalent share premium (Unaudited)	Total (Unaudited)
		HK$'000	*HK$'000*	*RMB'000*	*RMB'000*	*RMB'000*
On incorporation	–	–	–	–	–	–
Issue of shares in connection with Reorganisation	6,450,000	65	–	57	–	57
Conversion of preferred shares	930,000	9	74,924	8	66,218	66,226
Capitalisation issue	352,620,000	3,526	(3,526)	3,116	(3,116)	–
Issue of shares in connection with listing	80,000,000	800	151,200	707	133,628	134,335
Remuneration shares issued	528,000	5	(5)	5	(5)	–
	440,528,000	4,405	222,593	3,893	196,725	200,618
Share issue expenses	–	–	(17,408)	–	(15,385)	(15,385)
At 30 June 2008	440,528,000	4,405	205,185	3,893	181,340	185,233
Over-allotment of shares	5,760,000	58	10,400	51	9,191	9,242
Deemed distribution	–	–	(10,148)	–	(8,969)	(8,969)
At 31 December 2008 and 1 January 2009	446,288,000	4,463	205,437	3,944	181,562	185,506
Exercise of share options	4,470,560	45	6,307	39	5,556	5,595
At 30 June 2009	**450,758,560**	**4,508**	**211,744**	**3,983**	**187,118**	**191,101**

12. CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 June 2009.

13. COMMITMENTS

The Group had the following commitments as at the balance sheet date:

	30 June 2009 (Unaudited)	31 December 2008 (Audited)
	RMB'000	*RMB'000*
Authorised, but not contracted for:		
Land and buildings	**120,000**	120,000

14. COMPARATIVE AMOUNTS

Certain comparative amounts have been restated to conform to the current period presentation.

15. APPROVAL OF THE UNAUDITED INTERIM ACCOUNTS

These unaudited Interim Accounts were approved by the Board on 13 August 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Revenue and profit attributable to equity holders of the Company

For the six months ended 30 June 2009, the revenue of the Group amounted to approximately RMB290.8 million, representing a decrease of approximately 12% as compared with the same period in 2008 (2008: approximately RMB329.4 million).

An exclusive one-off event was held with one of the mobile operators during the first quarter of 2008. It attributed approximately RMB48.6 million gross revenue and approximately RMB9.3 million net profit for the six months ended 30 June 2008. Excluding the impact of this one-off event, the revenue of the Group represented a slight increase of approximately 4% as compared with the same period in 2008.

For the six months ended 30 June 2009, the profit attributable to equity holders of the Company amounted to approximately RMB44.9 million, representing an increase of approximately 21% as compared with the same period in 2008 (2008: approximately RMB37.0 million).

There were a one-off listing expense of approximately RMB9.0 million and a one-off income from the exclusive event of approximately RMB9.3 million incurred during the six months ended 30 June 2008, a non-operating related share option expense of approximately RMB2.7 million incurred during the six months ended 30 June 2009. Excluding these one-off and non-operating items, the net profit generated from core business attributable to equity holders of the Company was approximately RMB47.6 million (2008: approximately RMB36.7 million), representing an increase of approximately 30% as compared with the same period in 2008.

Cost of services provided

For the six months ended 30 June 2009, the cost of services provided by the Group amounted to approximately RMB173.8 million, representing a decrease of approximately 8% as compared with the same period in 2008 (2008: approximately RMB188.0 million).

The cost of services provided mainly comprises revenue sharing with mobile operators and business alliances, and other costs such as music copyrights and direct labor costs.

Revenue share with mobile operators ranged from 15% to 50% of the total revenue received from mobile users and it averaged at approximately 27% of the total revenue for the six months ended 30 June 2009 (2008: approximately 31%). The decrease was due to the change of product mix. Ringback tone services ("**RBT**") has been reduced to 30% of total revenue from 51% as compared with the same period in 2008, where RBT normally are charged at a higher revenue share.

Revenue share with business alliances averaged at approximately 29% of the total revenue for the six months ended 30 June 2009 (2008: approximately 23%). However, it remained at about the same level as at year end of 2008.

Gross profit

The gross profit of the Group amounted to approximately RMB112.4 million, representing a decrease of approximately 17% as compared with the same period in 2008 (2008: approximately RMB135.8 million).

For the six months ended 30 June 2009, the gross profit margin of the Group decreased from approximately 41% to 39% as compared with the same period in 2008, however, it represented a slight increase from approximately 38% to 39% as compared with the year ended 31 December 2008.

Combining the selling and marketing expenses and the cost of services provided, the adjusted total cost of sales for the six months ended 30 June 2009 was approximately RMB217.0 million (2008: approximately RMB249.8 million). It represented a gross profit including selling and marketing expenses of approximately RMB69.2 million (2008: approximately RMB74.0 million). The gross profit margin including selling and marketing expenses had improved from approximately 22% to 24% as compared with the same period in 2008.

Other income and gains

For the six months ended 30 June 2009, the other income and gains of the Group were approximately RMB8.1 million, representing an increase of approximately 376% as compared with the same period in 2008 (2008: net gain of approximately RMB1.7 million).

The increase was mainly due to the increase of government grant and interest income which amounted to approximately RMB2.2 million and RMB2.0 million respectively.

Selling and marketing expenses

For the six months ended 30 June 2009, the selling and marketing expenses of the Group amounted to approximately RMB43.2 million, representing approximately 15% of total revenue (2008: approximately RMB61.8 million, representing approximately 19% of total revenue). As a result of continuing effective cost control, the selling and marketing expenses as a percentage of total revenue represented a 4% lower than the same period in 2008.

Administrative expenses

For the six months ended 30 June 2009, the administrative expenses of the Group amounted to approximately RMB25.7 million, representing an increase of approximately 57% as compared with the same period in 2008 (2008: approximately RMB16.3 million).

The increase was mainly due to the increased expenses on professional and consultant fees which include fees to compliance advisor, investor relations, legal counsel and company secretary, etc, which amounted to approximately RMB1.9 million. It was also due to the increase in expenses in relation to the additional back office headcounts and the unrealized share option expenses amounted to approximately RMB2.9 million and RMB2.7 million respectively.

Other expenses

For the six months ended 30 June 2009, the other expenses of the Group amounted to approximately RMB0.08 million, representing a decrease of approximately 99% as compared with the same period in 2008 (2008: approximately RMB11.8 million).

The decrease was due to the absence of the one-off listing expense which amounted to approximately RMB9.0 million in 2008.

Finance costs

For the six months ended 30 June 2009, the finance costs of the Group represented a decrease of approximately 100% as compared with the same period in 2008 (2008: approximately RMB1.9 million).

The decrease was mainly due to the termination of the accrued interest expenses of the convertible redeemable preferred shares upon listing of the Company's shares on 12 June 2008.

Tax

For the six months ended 30 June 2009, the tax of the Group amounted to approximately RMB6.5 million, representing a decrease of approximately 16% as compared with the same period in 2008 (2008: approximately RMB7.7 million).

The effective tax rate of the Group decreased to approximately 12.6% (2008: approximately 16.9%) in the six months ended 30 June 2009. As a result of the new enterprise income tax law in China, the statutory tax rates are 15%, 20% and 25% in the respective operating companies of the Group for 2009 (2008: 9%, 15%, 18% and 25% respectively). Fluctuations in the effective tax rate and deviation from standard rate are mainly due to the combined effect of the tax exemptions and tax reduction enjoyed by certain subsidiaries of the Group.

The decrease in the effective tax rate was mainly due to the one-off tax exemption and refund in prior years which amounted to approximately RMB3.6 million. Excluding these exemption and refund, the effective tax rate was approximately 19.6%, representing an approximately 3% increase as compared with the same period in 2008.

Current assets and current liabilities

As at 30 June 2009, the total current assets of the Group amounted to approximately RMB462.6 million (2008: approximately RMB438.8 million). Accounts receivable amounted to approximately RMB85.5 million (2008: approximately RMB101.7 million), and the turnover days of accounts receivable slightly increased from 52 days in 2008 to 53 days in 2009.

As at 30 June 2009, the total current liabilities of the Group amounted to approximately RMB84.4 million (2008: approximately RMB112.7 million). It was due to the decrease of the accounts payable from RMB58.6 million to approximately RMB39.0 million as of 30 June 2009, and the fact that the accounts payable turnover days decreased from 48 days to 41 days as of 30 June 2009. It was also due to the decrease in other payables and accruals from RMB39.1 million to RMB33.1 million as of 30 June 2009.

Liquidity and financial resources

As at 30 June 2009, approximately RMB222.0 million, or 64% of the Group's total cash and cash equivalents were denominated in Renminbi.

As of 30 June 2009, the Group did not have any borrowings nor debts, thus the gearing ratio is not applicable. Gearing ratio is measured by the net borrowings (total borrowings net of cash and cash equivalent and restricted cash) over the total equity.

The Group's exposure to changes in interest rate is mainly attributable to its term deposits placed with banks. The Group mainly operates in the mainland China with most of the transactions settled in Renminbi.

As at 30 June 2009, the Group did not have any derivative for hedging against both the interest and exchange rate risks.

Charges and contingent liabilities

As at 30 June 2009 and 31 December 2008, the Group had no charges on its assets and no material contingent liabilities.

Human resources

As at 30 June 2009, the Group had 336 employees (as at 31 December 2008: 333 employees). Total employee costs for the six months ended 30 June 2009, including Directors' emoluments, amounted to approximately RMB28.2 million.

Employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system which is reviewed regularly. A share option scheme has also been put in place for the Company to encourage employees to work towards enhancing the value of the Company and promote the long-term growth of the Company. Furthermore, the Group offers training programs for employees to upgrade their skills and knowledge on a regular basis.

Interim dividend

The Board does not recommend the payment of an interim dividend for 2009. The recommendation on the payment of a final dividend for the year ending 31 December 2009 may be made after the completion of a detailed review of the Group's capital requirements for its existing businesses and potential investment opportunities and when the full-year results are available.

Business Outlook

In 2009, we have been investing our time and efforts in building long term strategy for both content and distribution channel, specifically on User Generated Content ("**UGC**") and A8 Box.

At the beginning of the year, we have extended the concept of our UGC model. Not only have we been collecting and selecting songs from our open platform www.a8.com, we have extended the UGC content to include the exclusive arrangements with record labels and artists. Riding on our selection and promotion capabilities on digital music and the ability to create digital revenue, we have successfully announced the cooperation with the traditional record label HIM which owns and manages popular bands and artists like S.H.E and Fahrenheit. This has created a "win-win" and synergetic collaboration between the Company as the leading digital music company and HIM as the renowned traditional record company.

This enables the Company to be able to apply its UGC model to select, promote and monetize songs on digital platform in the coming two years. In addition, we have also concluded a similar arrangement with Gold Typhoon to promote and monetize the songs of Zhou Bichang, who is the second winner of the Super Girl in 2006, on digital platform.

To further enrich our UGC content and improve our A8 brand, the Company involved in a wide range of national music competitions in the second half of 2009: *Golden Bell Contest*, Pepsi's national "*Battle of Bands*" competition, our fourth *Original Music Contest* and the *Battlestage* in Hong Kong. All these have poised a very solid foundation for our future content strategy.

In terms of distribution channel, we, as the exclusive partner, are working with Xinhua News Agency (the only Chinese government news media platform) to build the Xinhua Mobile Media Service platform ("**Xinhua MMSP**"). By leveraging on Xinhua's news media and A8's music services, the Xinhua MMSP will provide a full range of services including news, music and music related services, videos, games etc. and it will be a major media content portal for all three mobile operators.

Our vision for A8 Box is a "total music solution" with high quality on a multi-terminal, multi-device basis. A8 Box is still at its developing stage and we have been trying to launch different versions on different platforms to interact with users in order to perfect the user experiences.

Follow through with the telecom restructuring and the deployment of the 3G, we have been working closely with the new Telecom and new Unicom to prepare for launching their music services. We have been developing 3G products to be used on three different platforms, like full track, video related music series, etc. At the same time, we will involve in the development and operation of Mobile Market with China mobile.

As a conclusion, this year is an investment year for A8 on building more content and creating additional distribution channels to deliver our music and music services. Our team, throughout the year, had explored and executed numerous synergistic and innovation projects that will generate continuous and additional streams of revenue in the coming years.

UGC Platform

The Fourth Original Music Contest officially kicked off on 3 August 2009 in Beijing. The Company invited Hubei Satellite TV, one of China's leading satellite television networks, as its official TV partner and Sina.com as its official internet partner. It is expected to collect over 5,000 songs during this contest.

In addition, Golden Bell's pop music contest will be held in eight cities across China with over 100,000 participants. The whole event will last from March to September 2009. Being the sole digital partner of this contest, we host the Internet Contest by allowing artists/singers to be able to participate from the rest of the other cities. We also hosted the web-based Division of the Golden Bell Contest in Shanghai at the end of July 2009.

We have scheduled the S.H.E and Fahrenheit concert in August 2009 in Beijing and a major digital promotion campaign is engaged with one of the mobile operators.

In the first half of 2009, the revenue generated from UGC songs was approximately 44% of the total music and music related revenue. Top five UGC songs were downloaded over 22.8 millions times during the first half of 2009. One of the UGC song – Zhan Chi Tian Kong (展翅天空) was downloaded over 4.5 million times since its launch in February this year. This song together with RenCuo (認錯) were on China Mobile Wireless Top 10 and Baidu's Top 10 Billboards.

A8 Box

On 17 May 2009, we announced that our A8 Box has successfully passed the Media Tek ("**MTK**") stringent requirements and it will be embedded in all of the future MTK's chipsets which is expected to be delivered from fourth quarter of 2009 onward. Meanwhile, we have finalized the cooperation with K-Touch, the largest local handset manufacture in China.

We have also completed a download version with richer music functions for Symbian Platform users. The initial feedback was overwhelmed and we have recorded about 50% activation rate.

As mentioned above, A8 Box will ultimately be a direct model to reach out to consumers and it eventually will be a consumer brand. At current stage, we are concentrating on improving user experiences; creating stickiness and hence accumulating user base.

Share Option Schemes

On 26 May 2008, the shareholders of the Company adopted two share option schemes for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons.

The following table discloses movements in the Company's share options which are outstanding under the Pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") during the six months ended 30 June 2009:

	Number of share options								
Category of participants	**At 1 January 2009**	**Granted during the period**	**Exercised during the period**	**Lapsed/ forfeited during the period**	**At 30 June 2009**	**Date of grant of share options**	**Vesting period of share options**	**End of exercise period**	**Exercise price of share options HK$ per share**
Senior management of the Group	379,200	–	125,280	–	253,920	21 May 2008	minimum of 3 years and maximum of 4 years	21 May 2012	ranging from HK$0.16 to HK$0.74 per share
Other employees and eligible persons	17,990,800	–	4,345,280	4,141,230	9,504,290	21 May 2008	minimum of 3 years and maximum of 4 years	21 May 2012	ranging from HK$0.17 to HK$0.91 per share
In aggregate	18,370,000	–	4,470,560	4,141,230	9,758,210				

During the six months ended 30 the June 2009, 4,141,230 share options granted under the Pre-IPO Share Option Scheme were lapsed following the resignations of the relevant employees and eligible persons.

4,470,560 share options granted under the Pre-IPO Share Option Scheme were exercised and no share was cancelled during the six months ended 30 June 2009.

There were 9,758,210 outstanding share options granted under the Pre-IPO Share Option Scheme, representing an aggregate of approximately 2.14% of the issued share capital of the Company as at the date of this interim report. All such share options were accepted by the relevant employees or eligible persons with a nominal consideration of HK$1.00. No further share option will be granted under the Pre-IPO Share Option Scheme and all share options granted under this scheme must be exercised on or before 21 May 2012. The exercise prices of the share options granted under this scheme were determined based on different valuations of the Company.

The following table discloses movements in the Company's share options which are outstanding under the 2008 share option scheme (the "**2008 Share Option Scheme**") during the six months ended 30 June 2009:

Name/category of participants	Number of share options: At 1 January 2009	Number of share options: Granted/ Exercised during the period	Number of share options: At 30 June 2009	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant
Directors								
Mr. Lin Yizhong	4,405,280	–	4,405,280	15 Oct 2008	one-fourth of the share options granted will be vested after every 12-month period starting from 15 Oct 2008	14 Oct 2018	HK$1.184 per share	HK$1.15
Ms. Ho Yip, Betty	108,000	–	108,000	16 Oct 2008	one-fourth of the share options granted will be vested after every 12-month period starting from 16 Oct 2008	15 Oct 2018	HK$1.16 per share	HK$1.08
In aggregate	4,513,280	–	4,513,280					

No share options granted under the 2008 Share Option Scheme were exercised, lapsed or cancelled during the six months ended 30 June 2009.

As at the date of this interim report, there were 4,513,280 outstanding share options and 39,539,520 un-issued share options under the 2008 Share Option Scheme, representing an aggregate of approximately 9.67% of the issued share capital of the Company as at the date of this interim report.

DISCLOSURE OF INTERESTS

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at 30 June 2009, the directors and chief executives of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 of the Listing Rules and the Code of Conduct for Securities Transactions by Directors of the Company ("**Own Code**"):

Long positions in shares and underlying shares of the Company

		Long positions in shares and underlying shares			Approximate percentage of interest in the
Name of Director	**Capacity**	**Ordinary shares**	**Underlying shares**	**Total**	**Company's issued share capital**
Mr. Liu Xiaosong	Founder of a trust[1]	178,911,892	Nil	179,713,892	39.87%
	Beneficial owner	802,000	Nil		
Mr. Li Wei	Interest of spouse[2]	48,609,756	Nil	48,609,756	10.78%
Ms. Ho Yip Betty	Beneficial owner	Nil	108,000[3]	108,000	0.02%
Mr. Lin Yizhong	Interest in controlled corporation	4,951,272	Nil	9,356,552	2.08%
	Beneficial owner	Nil	4,405,280[3]		

Short positions in shares and underlying shares of the Company

		Short positions in shares and underlying shares			Approximate percentage of interest in the
Name of Director	**Capacity**	**Ordinary shares**	**Underlying shares**	**Total**	**Company's issued share capital**
Mr. Li Wei	Interest of spouse[2]	4,500,000	Nil	4,500,000	0.99%

Notes:

1. Mr. Liu Xiaosong is the founder of a family trust which is deemed under SFO to be interested in all the shares held by Ever Novel Holdings Limited ("**Ever Novel**") and Prime Century Technology Limited ("**Prime Century**") in the Company. As at 30 June 2009, Prime Century directly held 141,717,843 shares and Ever Novel directly held 178,911,892 shares in the Company.

2. Mr. Li Wei is deemed by SFO to be interested in the long positions and short positions in the shares of the Company held indirectly by Ms. Cui Jingtao who is his spouse.

3. Details of share options held by the Directors are shown in the section headed "Share Option Schemes".

Long positions in the registered capital of associated corporations of the Company

(a) Shenzhen Huadong Feitian Network Development Co., Ltd. ("**Huadong Feitian**") (4)

Name of Director	**Capacity**	**Long positions in the registered capital (RMB)**	**Approximate percentage of interest in the registered capital of the associated corporation**
Mr. Liu Xiaosong	Beneficial owner	21,510,000	75%
Mr. Li Wei	Interest of spouse(5)	7,170,000	25%

(b) Shenzhen Kuaitonglian Technology Co., Ltd. ("**Kuaitonglian**") (6)

Name of Director	**Capacity**	**Long positions in the registered capital (RMB)**	**Approximate percentage of interest in the registered capital of the associated corporation**
Mr. Lin Yizhong	Beneficial owner	10,000,000	100%

Notes:

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

5. Mr. Li Wei is deemed by SFO to be interested in the registered capital of Huadong Feitian owned by Ms. Cui Jingtao who is his spouse.

6. Kuaitonglian is a limited liability company incorporated in China which financial results are, through a number of structure contracts, consolidated into the financial statements of the Company and therefore an associated corporation of the Company.

Save as disclosed above, as at 30 June 2009, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code and Own Code.

Substantial shareholders' interests and short positions

As at 30 June 2009, the persons or corporations (other than a director or chief executive of the Company) who had interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or had otherwise notified to the Company were as follows:

Long positions in the shares of the Company

Name of substantial shareholder	Capacity	Long positions in the shares: Ordinary shares	Long positions in the shares: Total	Approximate percentage of interest in the Company's issued share capital
HSBC International Trustee Limited	Trustee (other than a bare trustee)[1]	238,439,023	238,439,023	52.89%
River Road Investment Limited	Interest in controlled corporation[1]	216,839,023	216,839,023	48.10%
Knight Bridge Holdings Limited	Interest in controlled corporation[1]	216,839,023	216,839,023	48.10%
Ever Novel	Interest in controlled corporation[1, 2]	141,717,843	178,911,892	39.69%
	Beneficial owner	37,194,049		
Prime Century	Beneficial owner[1, 2]	141,717,843	141,717,843	31.44%
Ms. Cui Jingtao	Interest in controlled corporation[3]	48,609,756	48,609,756	10.78%
Success Profit Investments Limited	Interest in controlled corporation[3]	48,609,756	48,609,756	10.78%
Top Result Enterprises Limited	Beneficial owner[3]	48,609,756	48,609,756	10.78%

Short positions in the shares of the Company

Name of substantial shareholder	**Capacity**	**Short positions in shares**		**Approximate percentage of the Company's issued share capital**
		Ordinary shares	**Total**	
Ms. Cui Jingtao	Interest in controlled corporation[3]	4,500,000	4,500,000	0.99%
Success Profit Investments Limited	Interest in controlled corporation[3]	4,500,000	4,500,000	0.99%
Top Result Enterprises Limited	Beneficial owner[3]	4,500,000	4,500,000	0.99%

Notes:

1. HSBC International Trustee Limited is the trustee of family trusts which, through intermediate holding companies (including but not exclusively River Road Investment Limited, Knight Bridge Holdings Limited, Ever Novel and Prime Century), exercise or control the exercise of one third or more voting power at the general meetings of such companies and is deemed under the SFO to be interested in the shares of the Company held by such companies.

2. As at 30 June 2009, Prime Century directly held 141,717,843 shares and Ever Novel directly held 178,911,892 shares in the Company. Ever Novel was entitled to exercise or control the exercise of one third or more of the voting power at the general meeting of Prime Century and was deemed to be interested in the 141,717,843 shares in the Company held directly by Prime Century.

3 Ms. Cui Jingtao is deemed to be interested in the long positions and short positions in the shares of the Company held by Top Result Enterprises Limited ("**Top Result**") in the Company under the SFO because Top Result is wholly owned by Success Profit Investments Limited, which is wholly owned by Ms. Cui Jingtao.

Save as disclosed above, as at 30 June 2009, no person or corporation other than the directors or chief executives of the Company had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period ended 30 June 2009, neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed securities. In addition, the Company has not repurchased any of its listed securities during the period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the period ended 30 June 2009, all the code provisions set out in the Code on Corporate Governance Practices ("**CG Code**") contained in Appendix 14 of the Listing Rules were met by the Company, except in respect of one code provision providing for the roles of chairman and chief executive officer to be performed by different individuals.

Mr. Liu Xiaosong has over 15 years of experience in the technology, media and telecommunication industry and is responsible for overall management and strategic planning of the Group. The Board considers Mr. Liu, the chairman of the Board and chief executive officer of the Company, is able to lead the Board in major business decisions making for the Group. Therefore, Mr. Liu has the dual roles of the chairman of the Board and chief executive officer of the Company despite deviation from provision A.2.1 of the CG Code contained in Appendix 14 of the Listing Rules during the reporting period.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Own Code which covers the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct governing the directors' dealings in the Company's securities. Having made specific enquiries with all the Directors, they all confirmed that they have complied with the required standards set out in the Own Code (covering the Model Code) throughout the period under review.

AUDIT COMMITTEE

The audit committee, which comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The audit committee has reviewed the Group's unaudited Interim Accounts for the six months ended 30 June 2009.

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

Hong Kong, 13 August 2009