# 2008

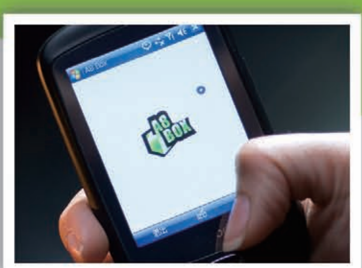
Annual Report 年報

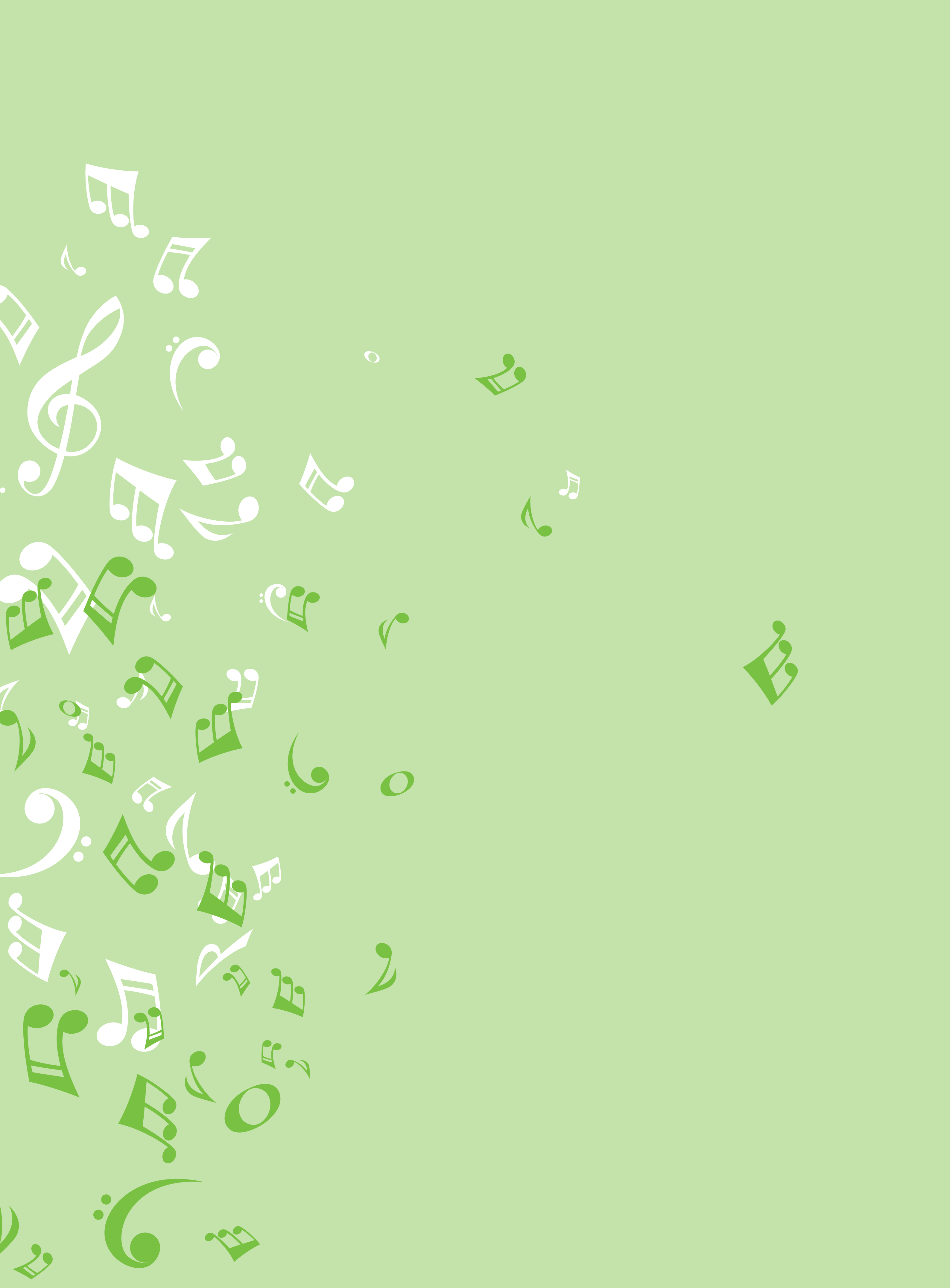
## A8 DIGITAL MUSIC HOLDINGS LIMITED
## A8 電媒音樂控股有限公司

(Incorporated in the Cayman Islands with limited liability)

（於開曼群島註冊成立之有限公司）

Stock Code 股份代號: 00800





# Contents

我的音乐无处不在!
My Music Everywhere!

## EXECUTIVE DIRECTORS
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*

## LEGAL ADVISERS AS TO HONG KONG LAWS
Coudert Brothers
In association with
Orrick, Herrington & Sutcliffe LLP

## AUDITORS
Ernst & Young

## COMPLIANCE ADVISOR
SBI E2-Capital (HK) Limited
(effective on 13 December 2008)

## INVESTOR RELATIONS CONSULTANT
Strategic Financial Relations (China) Limited

## PRINCIPAL BANKERS
China Merchants Bank
Standard Chartered Bank (Hong Kong) Limited
Credit Suisse, Hong Kong Branch

## REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEAD OFFICE
5/F, Fucheng Hi-tech Building
South-1 Avenue
Southern District of Hi-tech Park
Nanshan District
Shenzhen
Guangdong Province
The PRC

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Level 28
Three Pacific Place
1 Queen's Road East
Hong Kong

## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## WEBSITE
www.a8.com

## STOCK CODE
00800

## CONSOLIDATED RESULTS

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* |
| Revenue | **706,079** | 285,964 | 268,438 | 233,233 |
| Profit before tax | **94,968** | 60,485 | 44,602 | 41,971 |
| Tax | **(14,168)** | (5,248) | (5,314) | (974) |
| Profit for the year | **80,800** | 55,237 | 39,288 | 40,997 |
| Attributable to: | | | | |
| Equity holders of the Company | **80,170** | 55,274 | 39,863 | 41,842 |
| Minority interests | **630** | (37) | (575) | (845) |
| | **80,800** | 55,237 | 39,288 | 40,997 |

## CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

| | As of 31 December | | | |
|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 |
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* |
| Total assets | **479,334** | 291,187 | 230,460 | 177,981 |
| Total liabilities | **(113,548)** | (109,683) | (106,789) | (93,409) |
| Minority interests | **(650)** | (20) | (57) | (821) |
| | **365,136** | 181,484 | 123,614 | 83,751 |

The consolidated results of A8 Digital Music Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2008 and the consolidated assets, liabilities and equity of the Group as at 31 December 2008 are those set out in the audited financial statements.

The summary of the consolidated results of the Group for each of the three years ended 31 December 2005, 2006 and 2007 and of the assets, liabilities and equity as at 31 December 2005, 2006 and 2007 have been extracted from the prospectus issued on 28 May 2008 (the "Prospectus") in connection with the listing of the Company's shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 June 2008 (the "Listing Date"). Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis as set out in note 2.1 to the financial statements.

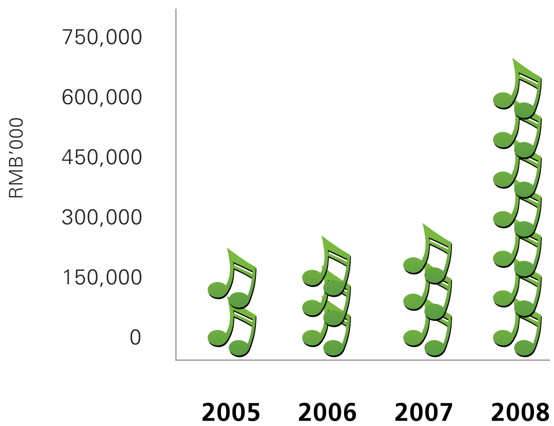
No financial statement of the Group for the year ended 31 December 2004 has been published.

The summary above does not form part of the audited financial statements.

**97%** Net Profits*

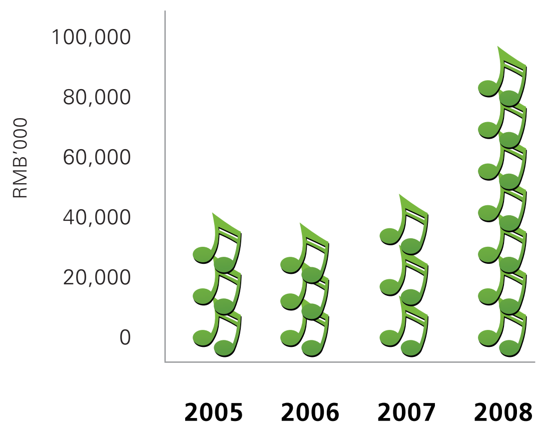
**147%** Revenue

## REVENUE

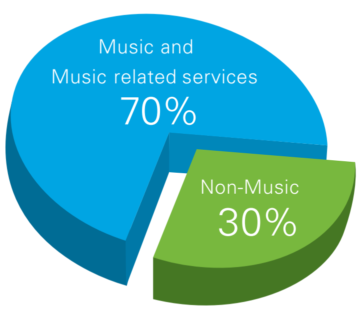



## NET PROFITS*

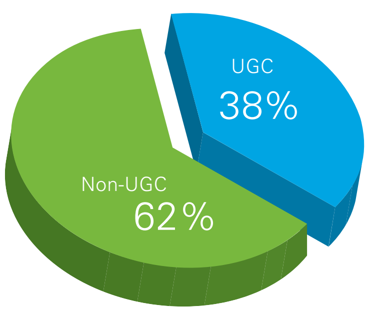
* Excluding one-off and non-operating items




## MUSIC AND MUSIC RELATED SERVICES




## USER GENERATED CONTENT ("UGC")



# CHAIRMAN'S STATEMENT

Dear Shareholders:

Year 2008 was indeed a very significant and memorable year for the Group. A8 was successfully listed on the main board of the Stock Exchange of Hong Kong Limited on 12 June 2008, thanks to the hard work all of our employees in the past eight years. Apart from signifying the reaching of a major milestone by the Group, gaining public company status also speaks to the strong foundation of A8 and provides a direct access and flexibility in the capital market for our future growth.

***Liu xiaosong***
*Chairman*

## OPERATIONS

In 2008, the digital music industry continued to grow rapidly. Ringback tone revenue and subscription reached approximately RMB14.4 billion and 1.35 billion times in 2008, representing an increase of 22% and 73% respectively, based on China Mobile's 2008 annual report. The expected growth rate of music phone owners was 63% in 2008, according to In-State report in February 2007. This has demonstrated that the digital music industry in China is at a state of secular growth.

We have been actively promoting our own UGC, original artists including the singers of "寂寞才說愛" and "千萬別説" appeared in over 20 performance across China as well as in Hong Kong. We have organised over 40 concerts/performances in 2008 and expected to have over 60 concerts/performances in 2009. Such events significantly improve the artists profile and popularity as well as create digital music income. The total revenue generated from UGC increased 270% to approximately RMB182.8 million in 2008.

A8 Box, being a "total music solution" provider, is our proprietary pre-set software installed in mobile handsets which facilitates mobile phone subscribers to access our unique music services directly from their mobile phone. In addition to the existing compatible platforms like Symbian, MTK, Spectrum and Windows Mobile, it has extended to MTK08B and Nokia S60 5.0. We are currently working with over 90 chipset suppliers, design houses and handset manufacturers, like Spectrum, Rebound, Amoi, Nokia, Malata and Gionee, etc. There were approximately 6 million handsets launched with A8 Box in 2008. We target to launch approximately 10 million handsets with A8 Box in 2009.

Year 2008 was an eventful year for China. It was hit by a severe snow storm and catastrophic earthquake and amid all that also hosted one of the best Olympic Games. With public attention drawn to the different incidents and events, effectiveness of our marketing efforts was affected. However, with experienced management, focused strategy and at the concerted efforts of our staff, we delivered very solid financial results for year 2008.

## FINANCIAL RESULTS

For the year ended 31 December 2008, the total revenue of the Group continued to increase and reached approximately RMB706.1 million, representing an increase of 147% as compared with 2007. The profit attributable to the shareholders of the year amounted to approximately RMB80.2 million, representing an increase of 45% as compared with the previous year. For the year ended 31 December 2008, the basic and diluted earnings per share were approximately RMB0.20 and RMB0.19 respectively.

As at 31 December 2008, the Group had total current assets of approximately RMB438.8 million with a cash balance of approximately RMB315.6 million and net assets of approximately RMB365.8 million. The Group has no debt as at 31 December 2008.

## CORPORATE SOCIAL RESPONSIBILITY

We promptly responded to the need for help of those affected in the Sichuan Earthquake. The Company, a private enterprise then, had set up a "A8 Love Fund" and raised over RMB3 million. The fund was aimed to assist students who were suffered during the earthquake. The Company also sent a delegation of staff to visit the victims and organised performances by UGC singers for the people in the affected areas.

In addition, in view of the 30% employment rate of university graduates, we held on-campus recruitment in universities in Sichuan, Shanxi, Hunan and Hubei and recruited more than 40 graduates as trainees to support rapid development of our business.

## BUSINESS OUTLOOK

Looking forward, the global economy will continue to face severe challenges in 2009. However, we believe the Chinese economy is going to maintain relatively higher growth braced by the aggressive economic stimulus packages announced by the government, including those specifying the high-tech and culture related industry in Shenzhen. These government efforts poised a favorable macro environment for the Group.

For the digital music industry, the restructured telecom sector and the deployment of 3G will present tremendous business opportunities to us. Mobile music related revenue has become one of the major growth drivers over voice revenue for mobile operators.

In 2009, we will, building on our proven track record in digital music services, take full advantage of our UGC content and strong marketing and promotional capabilities to prepare for our future growth. We are committed to continue developing diversified 3G related music services and products, promoting more personalised music services and 3G compatible applications for A8 Box, strengthening partnership with the existing three mobile operators and enhancing cooperation with original music producers and record labels.

It will be a challenging year in 2009 amid the financial crisis, but we are striving to maintain a consistent and sustainable growth as well as to create value for our shareholders.

**Liu Xiaosong**
*Chairman*

Hong Kong
25 March 2009

# CORPORATE CULTURE

## Business Review

In 2008, the Company strengthened its efforts in collecting original independently produced music content. We have successfully hosted the 2008 Original Music Competition in China with over 4,000 entries. The Company also expanded its business to the overseas markets; we have established a strategic partnership with the Hong Kong original produced music website www.greencoffee.com.hk, adding Hong Kong as a new market where we collect original contents.

In 2008, the total revenue generated from music and music related products increased by 150% to approximately RMB495.0 million, UGC contributed to about 38% of our total music and music related revenue as compared with 27% in 2007, the total revenue generated from UGC increased 270% to approximately RMB182.8 million. "寂寞才説愛", an original independently produced song promoted by us, recorded over 18 million downloads in year 2008.

We continue to develop A8 Box to be applicable to different platforms and offer more music services. Nokia S60 5.0 and MTK08B were added during 2008 to the existing platforms. In addition, we have introduced the "shake" control technology in the fourth quarter of 2008. The function enables user to choose the next song by "shaking" the handset.

*Revenue and profit attributable to equity holders of the Company*

For the year ended 31 December 2008, the revenue of the Group amounted to approximately RMB706.1 million, representing an increase of approximately 147% as compared with 2007 (2007: approximately RMB286.0 million).

For the year ended 31 December 2008, the profit attributable to equity holders of the Company amounted to approximately RMB80.2 million, representing an increase of approximately 45% as compared with 2007 (2007: approximately RMB55.3 million). There was a one-off listing expenses of approximately RMB10.2 million and non-operating related share option expenses of approximately RMB7.1 million incurred in 2008 and a one-off disposal gain of approximately RMB5.7 million in 2007. Excluding these one-off and non-operating related items and income, the net profits generated from core business attributable to equity holders of the Company was approximately RMB97.5 million (2007: approximately RMB49.6 million), representing an increase of approximately 97% as compared with 2007.

The rapid growth in revenue was due to the strong growth of the mobile music industry in China. The colour ring (or ringback tone) revenue and subscription in 2008 increased by 22% and 73%, to approximately RMB14.4 billion and 1.35 billion times respectively, based on China Mobile's 2008 annual report.

As mentioned in our interim report for the six months ended 30 June 2008, the rapid growth in revenue was also due to the successful execution of our integrated marketing strategies on new media (i.e. internet and mobile), as well as on traditional media (i.e. TV and radio). It was also attributable to a nationwide exclusive partnership event with one of the major mobile operators, as the sole organizer and promoter, for the "Happy Chinese New Year" event held from January to March 2008. This was one of the festival events held during the year, among which the Group had also participated in "Use Music to Move Olympics" which lasted from April to November in 2008.

*Cost of services provided*

For the year ended 31 December 2008, the cost of services provided by the Group amounted to approximately RMB425.8 million, representing an increase of approximately 185% as compared with 2007 (2007: approximately RMB149.4 million).

The cost of services provided mainly comprises revenue share with mobile operators and business alliances, and other costs such as music copyrights and direct labor costs. The increase was due to the increase of revenue share with mobile operators and business alliances.

Revenue share with mobile operators was charged from 15% to 50% of the total revenue received from mobile users and it averaged approximately 28% of the total revenue for the year ended 31 December 2008 (2007: approximately 24%). The increase was due to the shift of significance of product mix from ringtones to ringback tones which were charged at a higher revenue sharing rate by the mobile operators.

Revenue share with business alliances averaged approximately 29% of the total revenue for the year ended 31 December 2008 (2007: approximately 22%). The increase was mainly due to the increase in revenue share with business alliances in order to enhance the Group's market share.

*Gross profit*

For the year ended 31 December 2008, the gross profit of the Group amounted to approximately RMB266.1 million, representing an increase of approximately 107% as compared with 2007 (2007: approximately RMB128.7 million). The overall gross profit margin of the Group decreased from approximately 45% to 38%.

Combining the selling and marketing expenses and the cost of services provided, the adjusted total cost of sales for the year ended 31 December 2008 was approximately RMB541.1 million (2007: approximately RMB216.4 million). It represented a gross profit including selling and marketing expenses of approximately RMB150.8 million (2007: approximately RMB61.7 million). The gross profit margin including selling and marketing expenses was approximately 21% for the year ended 31 December 2008 (2007: approximately 22%), maintaining a level comparable to that of year 2007.

*Other income and gains*

For the year ended 31 December 2008, the other income and gains of the Group were approximately RMB7.6 million, representing a decrease of approximately 62% as compared with 2007 (2007: net gain of approximately RMB20.2 million).

The decrease was mainly due to the termination of a non-recurring gain of a project with one of the mobile operators amounted to approximately RMB7.0 million, fair value gain of derivative financial instruments and gain on disposal of investments at fair value through profit and loss amounted to approximately RMB6.0 million in aggregate in 2007.

*Selling and marketing expenses*

For the year ended 31 December 2008, the selling and marketing expenses of the Group amounted to approximately RMB115.3 million, representing 16% of total revenue (2007: approximately RMB67.1 million, representing 23% of total revenue). As a result of effective cost control, it was at 7% lower than year 2007.

*Administrative expenses*

For the year ended 31 December 2008, the administrative expenses of the Group amounted to approximately RMB44.2 million, representing an increase of approximately 104% as compared with 2007 (2007: approximately RMB21.7 million).

The increase was mainly due to the increase of professional expenses amounting to approximately RMB6.6 million and the share option expense amounting to approximately RMB7.1 million. Excluding these two factors, the administrative expenses were approximately RMB30.5 million which representing a modest growth as compared with the growth of revenue.

*Other expenses*

For the year ended 31 December 2008, the other expenses of the Group amounted to approximately RMB17.3 million (2007: approximately RMB0.07 million).

The increase was mainly due to the one-off listing expenses amounted to approximately RMB10.2 million.

*Finance costs*

For the year ended 31 December 2008, the finance costs of the Group amounted to approximately RMB2.0 million, representing a decrease of approximately 59% as compared with the same period in 2007 (2007: approximately RMB4.9 million).

The decrease was mainly due to the termination of the accrued interest expense of the convertible redeemable preferred shares upon listing of the Company's shares on the Listing Date.

*Tax*

For the year ended 31 December 2008, the income tax expenses of the Group amounted to approximately RMB14.2 million, representing an increase of approximately 173% as compared with 2007 (2007: approximately RMB5.2 million). The effective tax rate of the Group increased to approximately 15% in 2008 (2007: approximately 9%).

The increase of effective tax rate was mainly due to the new Corporate Income Tax Law (the "New Corporate Income Tax Law") of the People's Republic of China (the "PRC"), which took effect on 1 January 2008. The New Corporate Income Tax Law increases the applicable tax rates of the Group's subsidiaries by terminating the preferential tax treatment that such subsidiaries entitled before 2008. As a result, the 2008 statutory tax rates are 9%, 18% and 25% in the respective operating subsidiaries of the Group (2007: 0%, 7.5%, 15% and 33% respectively). Fluctuations in the effective tax rate and deviation from statutory tax rates are primarily due to the combined effect of the tax exemptions and tax reduction enjoyed by certain subsidiaries of the Group.

Nevertheless, Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian"), a subsidiary of the Company, has been recognised as a high technology enterprise in 2008. According to the New Corporate Income Tax Law and its Implementation Rules, Huadong Feitian is entitled to the preferential tax rate of 15%, which is lower than the normal statutory tax rate of 18% in 2008.

*Liquidity and Financial Resources*

As at 31 December 2008, cash and bank balances of the Group amounted to approximately RMB315.6 million (2007: approximately RMB131.3 million), and approximately RMB185.9 million, or approximately 58.9% of the Group's total cash and cash equivalents, were denominated in RMB.

As at 31 December 2008, the Group did not have any borrowing or debts.

The Group's exposure to changes in interest rates is mainly attributable to its term deposits placed with banks. The Group mainly operates in the PRC with most of the transactions settled in RMB.

As at 31 December 2008, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

*Current Assets and Current Liabilities*

As at 31 December 2008, the total current assets of the Group amounted to approximately RMB438.8 million (2007: approximately RMB284.0 million). The increase was mainly due to the proceeds from the issue of new shares during the initial public offer ("IPO") of the Company in June 2008. Accounts receivable amounted to approximately RMB101.7 million (2007: approximately RMB64.8 million), and the turnover days of accounts receivable decreased from 82 days in 2007 to 52 days in 2008.

As at 31 December 2008, the total current liabilities of the Group amounted to approximately RMB112.7 million (2007: approximately RMB40.4 million). The increase was mainly due to: (1) accounts payables amounted to approximately RMB58.6 million (2007: approximately RMB18.0 million), and the turnover days of accounts payable increased from 44 days in 2007 to 50 days in 2008. (2) other payables and accruals amounted to approximately RMB39.1 million (2007: approximately RMB18.8 million), which mainly due to the increase of the unsettled promotion expenses of approximately RMB14.4 million and the increase of the accrual bonus and professional expense of approximately RMB4.6 million.

*Cash Flow*

Net cash inflow from operating activities of the Group for the year ended 31 December 2008 was approximately RMB132.1 million, resulted from cash generated from operations of approximately RMB139.3 million and tax paid of approximately RMB7.2 million.

Net cash inflow from investing activities of the Group for the year ended 31 December 2008 was approximately RMB26.3 million, which was mainly due to the decrease in amounts due from related parties of approximately RMB59.7 million which was settled in February 2008. The inflow was partly set off by the outflow from the purchase of prepaid land lease payment of approximately RMB29.3 million.

Net cash inflow from financing activities of the Group for the year ended 31 December 2008 was approximately RMB30.4 million, which was mainly due to the proceeds from issue of shares in connection with the IPO of the Company of approximately RMB134.3 million. The inflow was partly set off by the outflow from the distribution to a shareholder of a subsidiary of approximately RMB97.8 million.

*Dividend*

No interim dividend was declared for the six months ended 30 June 2008 and the Board of Directors (the "Board") does not recommend the payment of  final dividend for the year.

*Charges and Contingent Liabilities*

As at 31 December 2008 and 2007, the Group had no charges on its assets and no material contingent liabilities.

*Human Resources*

As at 31 December 2008, the Group employed 333 employees. The Group determines the remuneration of its staff based on various factors such as responsibility, qualifications and years of experience. Total employee costs for the year ended 31 December 2008, including directors' emoluments, amounted to approximately RMB43.6 million (2007: approximately RMB31.4 million).

*Significant Event*

Acquisition of Land Use Rights for a parcel of land in Shenzhen

On 6 November 2008, Huadong Feitian, a subsidiary of the Company entered into an agreement with Shenzhen Land Bureau for the acquisition of the land use rights of a parcel of land for an aggregate cash consideration of approximately RMB29.3 million. The land use rights for the parcel of land (the "Land") situated at Lot No. T204-0111, Southern District of Hi-Tech Industry Park, Nanshan District, Shenzhen, Guangdong Province, the PRC with a total gross floor area of approximately 4,745 square meters is to be used for industrial purpose. As at 31 December 2008, no property had been erected on the Land. Commercial buildings will be constructed on the Land principally for promoting original independently produced music content and research and development in relation to digital-music business.

Use of proceeds

The Company raised approximately HK$152.0 million and HK$10.9 million of gross proceeds through the IPO of the Company and the partial exercise of the over-allotment option on the Listing Date and 2 July 2008, respectively. As described in the Prospectus, the intended use of proceeds is as follows:

– potential acquisitions that offer synergy with the current business operation of the Group;

– further developing A8 Box;

– integrating the Group's business with the introduction of 3G mobile technology;

– upgrading the interactive User Generated Platform ("UGC Platform") www.a8.com;

– promoting the UGC Platform;

– promoting the original independently produced music content; and

– providing additional working capital for the Group.

The proceeds had not been utilised as at 31 December 2008, and are deposited in banks in Hong Kong. Going forward, the Company expects to carry out its business plan with gross proceeds as intended in the Prospectus.

| | |
|---|---|
| December 2008 | **2008 Hong Kong Outstanding Enterprises** |
| December 2008 | Granted as **"National High Technology Enterprise"** by Shenzhen Finance Bureau, Shenzhen Bureau of Science Technology & Information, Shenzhen Municipal Office of SAT and Shenzhen Local Tax Bureau |
| November 2008 | Acquired **the Land Use Rights** for a parcel of land situated at Lot No. T204-0111, Southern District of High-Technology Industry Park of Shenzhen |
| September 2008 | Identified as **"Leading Culture Enterprises"** and **"The hub of Shenzhen culture industry of Shenzhen"** by Shenzhen Municipal Culture Developing Bureau |
| June 2008 | **"A8 Music-original songs" Competition Awarding Ceremony** and Original Artists Hands-in-Hands Sichuan Earthquake Relief Night was held at Poly Theater in Shenzhen. |
| June 2008 | Successfully listed on the Stock Exchange under the **Stock Code 800.HK**, with the subscription over 128 times. |
| June 2008 | Identified as **"Shenzhen Leading Enterprise for Independent Innovation"** by Shenzhen Municipal Government |
| January 2008 | 2008 **Top 50 – A8 Box value added services** in China with the Most Investment Value |
| January 2008 | 2008 **Top 30 Enterprises** with the Most Investment Value in China |

## SALES AND MARKETING NETWORK


**28**

SALES
OFFICES

Covering

**31**

PROVINCES
In the PRC

## DIRECTORS

### Executive Directors

**Mr. Liu Xiaosong**, aged 43, an executive Director, the Chairman and the Chief Executive Officer of the Company. Mr. Liu graduated from Hunan University in the PRC in 1984, with a Bachelor's degree in Electrical Engineering. In 1987, Mr. Liu graduated from China Electric Power Research Institute in the PRC with a Master's degree in Engineering. In 1991, he studied at Tsinghua University as a PhD research student. He has over 15 years of experience in the technology, media and telecommunications industry. He was one of the founders of Tencent Holdings Limited, a company listed on the Stock Exchange. In 2004, Mr. Liu was admitted to the Shenzhen Experts Working Union. Mr. Liu was appointed as the Vice President of the Copyright Union of the Internet Society of China and the Copyright Society of China in August 2007 and September 2007 respectively. He is also the Vice President of the Shenzhen Hi-tech Association. He is a founder of the Group and has been the Chief Executive Officer of the Group since May 2000. He was appointed as a Director on 2 October 2007. Mr. Liu is currently responsible for the overall management and strategic planning of the Group.

Mr. Liu acts as the director of A8 Music Group Limited, Total Plus Limited, Cash River information Technology (Shenzhen) Co., Ltd. ("Cash River"), Huadong Feitian, Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian"), Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. and Beijing Chuangmeng Yingyue Culture Broadcasting Co., Ltd., which are subsidiaries of the Company.

Mr. Liu is the director of Knight Bridge Holdings Limited, Ever Novel Holdings Limited ("Ever Novel") and Prime Century Technology Limited ("Prime Century"), all of which had interest in the shares of the Company discloseable under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

**Ms. Ho Yip, Betty**, aged 40, is the Chief Financial Officer of the Company and an executive Director. Ms. Ho graduated from the University of Toronto in 1993, with a Bachelor's degree in Commerce. She was admitted as a member of the American Institute of Certified Public Accountants in 1997 and is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Ho has over 15 years of diversified experience in corporate finance, private equity, retail and operations. Ms. Ho was a director of Strategic Capital Group (HK) Limited, an e-commerce private equity firm, from 2000 to 2001. She held the position of Vice President of Corporate Development from 2001 to 2007 at Lorenzo Jewelry Limited, a wholly owned subsidiary of LJ International, Inc. (NASDAQ: JADE) and was responsible for financial planning, corporate finance, investor relations and matters relating to mergers and acquisitions of the group. She joined the Group in July 2007 as its Chief Financial Officer and was appointed as an executive Director on 9 November 2007. Ms. Ho currently oversees the accounting and financial matters of the Group.

**Mr. Lin Yizhong**, aged 35, is the Chief Operations Officer of the Company and an executive Director. Mr. Lin graduated from Tsinghua University in the PRC in 1995, with a Bachelor's degree in Materials, Science and Engineering. Mr. Lin has over 12 years of experience in the technology, media and telecom industry. He joined the Group in August 2000 as its senior manager and was appointed as an executive Director on 9 November 2007. Mr. Lin is currently responsible for the general management, sales and marketing and technological system of the Group.

### Non-executive Director

**Mr. Li Wei**, aged 45, is a non-executive Director. Mr. Li graduated from Peking University in 1985, with a Bachelor's degree in Science. He further obtained a degree of Master of Economics in 1991 and a degree of Executive Master of Business Administration in 2005 from Peking University. He is currently a director of IER Venture Capital Co. Ltd., a Vice President of each of Shenzhen Venture Capital Association, and Shenzhen Angel Investor Club, and a committee member of Venture Capital Profession Commission of Science and Technology Financial Promotion Association of China. Mr. Li was appointed as a non-executive Director on 9 November 2007. Mr. Li is the spouse of Ms. Cui Jingtao ("Ms. Cui"), a shareholder of Huadong Feitian and a substantial shareholder of the Company.

Mr. Li acts as the director of Huadong Feitian and Kuaitonglian, which are subsidiaries of the Company. He also acts as the director of Rongxin Power Eelectronic Co., Ltd. (a listed Company in China).

### Independent non-executive Directors

**Mr. Chan Yiu Kwong**, aged 44, is an independent non-executive Director. Mr. Chan graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences in 1988. He was admitted as a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants in 1999 and 2005 respectively. During June 2004 to July 2006, Mr. Chan served as an independent non-executive director of Beijing Enterprises Water Group Limited (formerly known as "Shang Hua Holding Limited"), a company listed on the Main Board of the Stock Exchange. During March 2001 to December 2007, Mr. Chan served as an executive director of Hi Sun Technology (China) Limited ("Hi Sun"), a company listed on the Stock Exchange. Mr. Chan currently serves as Company Secretary of Hi Sun. Mr. Chan is an independent non-executive director of a company listed on the Stock Exchange, namely Biosino Bio-Technology and Science Incorporation. He has over 20 years of experience in auditing, business advisory and corporate management. He was appointed as an independent non-executive Director on 9 November 2007.

**Mr. Hui, Harry Chi**, aged 45, is an independent non-executive Director. Mr. Hui obtained a Master of Business Administration degree in 1992 from the University of Southern California. Mr. Hui has over 12 years of experience in the media and music industry. He was the Managing Director of Warner/Chappell Music Publishing, Inc., Hong Kong. From 1998 to 2000, Mr. Hui had been the Senior Vice President/General manager of MTV Asia LDC. From 2002 to 2005, Mr. Hui was the President of the South East Asia division of Universal Music Limited. Since January 2007, Mr. Hui has been the Vice President, Marketing, China Beverages Business Unit of Pepsico International. He was appointed as an independent non-executive Director on 9 November 2007.

**Mr. Song Yong Hua**, aged 45, is an independent non-executive Director. Mr. Song graduated from Sichuan University with a Bachelor's degree in Engineering in 1984. In 1987 and 1989, Mr. Song obtained a Master's degree in Electrical Engineering and a degree of Doctor of Engineering from the China Electric Power Research Institute respectively. He further obtained a degree of Doctor of Science from Brunel University in 2002. Mr. Song was a Cheung Kong Scholar under the Cheung Kong Scholars Program. He was elected as a fellow of the Royal Society for the encouragement of Arts, Manufactures & Commerce in 2001 and the Royal Academy of Engineering in 2004. He is also a fellow of The Institution of Electrical Engineering. Currently, Mr. Song is the Professor of Electrical Engineering and the Pro-Vice-Chancellor of the University of Liverpool. He is also the Executive President of Xian Jiaotong Liverpool University, Suzhou, China. He was appointed as an independent non-executive Director on 9 November 2007.

## SENIOR MANAGEMENT OF THE GROUP

**Mr. Wang Hua**, aged 32, graduated from Sun Yat-Sen University with a Bachelor's degree in International Economy and Trade in 1999. He started his career in the computer software industry following his graduation from university and joined the telecommunications and value-added services industry in 2003. He joined the Group in May 2006. Currently, Mr. Wang is the department head of the Wireless Sales Department of the Group and is responsible for the general operation of the sales of wireless services of the Group.

**Ms. Xu Xiaohui**, aged 39, passed the Tertiary Education Self-learning Examination majoring in Finance (International Finance) in Wuhan University in 1999. She was admitted as a non-practising member of the Hubei Institute of Certified Public Accountants in 2005. She joined the Group in April 2000. Currently, Ms. Xu is the department head of the Internal Audit Department of the Group and is responsible for handling the internal control matters of the Group.

**Mr. Lu Zhonggang**, aged 34, graduated from Dalian University of Foreign Languages with a Bachelor's degree in Arts in 1998. After his graduation, he worked as a news reporter of a television station in the PRC. From 2001 to 2005, he was employed as a department head and a manager of a computer software company where he obtained extensive experience in human resources and management. He joined the Group in November 2005. Currently, Mr. Lu is the department head of the Human Resources Department of the Group and is responsible for the management of the matters regarding human resources, administration and customer services of the Group.

The Board presents their report and the audited financial statements of the Group for the year ended 31 December 2008.

The name of the Company was changed from A8 Music International Limited to A8 Digital Music Holdings Limited on 7 November 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 49 to 122.

No interim dividend was declared for the six months ended 30 June 2008 and the Board does not recommend the payment of final dividend for the year.

## FINANCIAL SUMMARY AND HIGHLIGHT

A summary of the published results, assets, liabilities and minority interests of the Group for the last four financial years, as extracted from the published audited financial statements and the Prospectus, is set out on pages 4 to 5. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 26 and 27 to the financial statements, respectively.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders of the Company.

## TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

## ISSUE OF SHARES

As part of the preparation for listing of the shares of the Company, the Company implemented a capitalisation issue of 352,620,000 shares and an issue of 80,000,000 new shares during its IPO in year 2008. All such shares issued were ordinary shares and the 80,000,000 new shares were issued at HK$1.90 per share. In July 2008, the underwriters of the Company's IPO, represented by their lead manager, partially exercised the over-allotment option and the Company issued an additional 5,760,000 new shares at HK$1.90 per share. The gross proceeds of the IPO and the partially exercised over-allotment option received by the Company were approximately HK$152.0 million and HK$10.9 million, respectively. Please refer to the Prospectus for proposed use of such proceeds.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2008, the Group's retained profits and share premium account, amounting to approximately RMB103,212,000 and RMB181,562,000, respectively. It provides a total of approximately RMB284,774,000 to be available for distribution.

As at 31 December 2008, the Company's reserves available for distribution amounted to approximately RMB193,109,000.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the five largest customers of the Group accounted to approximately 68% of the Group's total revenues while the largest customer of the Group accounted to approximately 46% of the Group's total revenues. In addition, for the year ended 31 December 2008, purchased from the Group's five largest suppliers accounted for less than 30% of the Group's total purchases.

None of the Directors nor any of their respective associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) of the Company had any beneficial interest in the Group's five largest customers or suppliers.

## DIRECTORS

The Directors during the year were:

**Executive Directors:**
Mr. Liu Xiaosong
Ms. Ho Yip, Betty
Mr. Lin Yizhong

**Non-executive Directors:**
Mr. Li Wei
Mr. Zhong Xiaolin (resigned on 20 November 2008)

**Independent non-executive Directors:**
Mr. Hui, Harry Chi
Mr. Song Yong Hua
Mr. Chan Yiu Kwong

In accordance with article 86(3) of the Company's articles of association, all Directors will retire and, being eligible, will offer themselves for re-election as Directors at the forthcoming annual general meeting of the Company.

The Company has received annual confirmations of independence pursuant to Rule 3.13 of the Listing Rules from Mr. Hui, Harry Chi, Mr. Song Yong Hua and Mr. Chan Yiu Kwong. As at the date of this report, the Company still considers these independent non-executive Directors to be independent.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and senior management of the Group are set out on pages 17 to 19 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the Directors has entered into a service contract or an appointment letter (as the case may be) with the Company for an initial fixed term of three years commencing from the Listing Date, subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to its articles of association, and will continue thereafter until terminated by (i) in cases of executive Directors and independent non-executive Directors, not less than three months' notice in writing served by either party on the other, or (ii) in case of non-executive Director, not less than one month's notice in writing by the non-executive Director.

Apart from the foregoing, no Director has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meeting of the Company. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements and in the section headed "Connected transactions" in this report, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party subsisting during or at the end of the year.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Save as disclosed in note 33 to the financial statements and in the section headed "Connected transactions" in this report, no contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

Save as disclosed in note 33 to the financial statements, no contract of significance for the provision of services to the Group by the controlling shareholder of the Company or any of its subsidiaries was entered into.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, the Directors and chief executives of the Company and their associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("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 Company's own code of conduct regarding directors' dealings in the Company's securities ("Own Code"):

*Long positions in shares of the Company*

| | | Number of shares | | |
|---|---|---|---|---|
| **Name of director** | **Nature of interest** | **Ordinary shares** | **Underlying shares (under equity derivatives of the Company)** | **Approximate percentage of interest in the Company's issued share capital** |
| Mr. Liu Xiaosong | Corporate[1] | 216,839,023 | Nil | 48.59% |
| | Personal | 802,000 | Nil | 0.18% |
| Mr. Li Wei | Family[2] | 48,609,756 | Nil | 10.89% |
| Ms. Ho Yip, Betty | Personal | Nil | 108,000[3] | 0.02% |
| Mr. Lin Yizhong | Personal | Nil | 4,405,280[3] | 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 and Prime Century in the Company. As at 31 December 2008, Prime Century directly held 179,644,974 shares and Ever Novel directly held 37,194,049 shares in the Company.

2. Mr. Li Wei is deemed by SFO to be interested in the shares in the Company held indirectly by Ms. Cui who is his spouse.

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

*Long positions in associated corporations of the Company*

| Name of director | Nature of interest | Associated corporation of the Company | Approximate percentage of interest in the associated corporation's registered capital |
|---|---|---|---|
| Mr. Liu Xiaosong | Personal | Huadong Feitian(4) | 75% |
| Mr. Li Wei | Family(5) | Huadong Feitian(4) | 25% |
| Mr. Lin Yizhong | Personal | Kuaitonglian(6) | 100% |

*Notes:*

4. Huadong Feitian is a limited liability company incorporated in China whose 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 who is his spouse.

6. Kuaitonglian is a limited liability company incorporated in China whose 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 31 December 2008, none of the Directors or chief executives of the Company had or was deemed to have any interest or short position in the shares and underlying shares 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.

## 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. Further details of the share option schemes are disclosed in note 27 to the financial statements.

The following table discloses movements in the Company's share options outstanding under Pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") during the year:

| | Number of share options | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Category of participants | At 1 January 2008 | Granted during the year | Lapsed/ forfeited during the year | At 31 December 2008 | 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 | – | 379,200 | 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** | – | 18,323,200 | (332,400) | 17,990,800 | 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** | – | 18,702,400 | (332,400) | 18,370,000 | | | | |

During the year ended 31 December 2008, 332,400 share options granted under the Pre-IPO Share Option Scheme lapsed following resignation of the relevant employees.

No share options granted under the Pre-IPO Share Option Scheme were exercised or cancelled during the year ended 31 December 2008.

As at the date of this annual report, there were 13,601,950 outstanding share options granted under the Pre-IPO Share Option Scheme, representing an aggregate of approximately 3.04% of the issued share capital of the Company as at the date of this annual 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. For further information of the Pre-IPO Share Option Scheme, please refer to note 27 to the financial statements.

The following table discloses movements in the Company's share options outstanding under 2008 share option scheme (the "2008 Share Option Scheme") during the year:

| Name/category of participants | Number of share options: At 1 January 2008 | Granted during the year | At 31 December 2008 | 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 of the Company** | | | | | | | | |
| 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 year ended 31 December 2008.

As at the date of this annual report, there were 4,513,280 outstanding share options and 39,539,520 un-issued share options available under the 2008 Share Option Scheme, representing an aggregate of approximately 9.86% of the issued share capital of the Company as at the date of this annual report. For further information of the 2008 Share Option Scheme, please refer to note 27 to the financial statements.

The Company has engaged an independent professional qualified valuer to assist in the valuation of the share options granted to its employees during the reporting period. The fair value of share options is determined using the Black-Scholes-Merton Option Pricing Model. The significant inputs into the model were expected IPO share price at grant date, risk-free interest rate, exercise price, expected volatility of the underlying shares, expected dividend yield and expected life of options. When the actual results of the inputs differ from management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company.

The value of share options calculated using the Black-Scholes-Merton Option Pricing Model is subject to certain fundamental limitations due to the subjective nature of and uncertainty relating to a number of the assumptions of expected future performance input to the model, and certain inherent limitations of the model itself.

Please refer to note 27 to the financial statements for the value of share options granted.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2008, the persons or corporations (other than a director or chief executive of the Company) who have 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 have otherwise notified to the Company are as follows:

| Name of substantial shareholder | Nature of interest | Number of ordinary shares (long positions) | Approximate percentage of interest in the Company's issued share capital |
|---|---|---|---|
| HSBC International | Trustee (other than a bare trustee)(i) | 238,439,023 | 53.43% |
| River Road | Corporate(i) | 216,839,023 | 48.59% |
| Knight Bridge | Corporate(i) | 216,839,023 | 48.59% |
| Ever Novel | Corporate(ii) | 179,644,974 | 40.25% |
| | Beneficial Owner(ii) | 37,194,049 | 8.33% |
| Prime Century | Beneficial Owner(ii) | 179,644,974 | 40.25% |
| Ms. Cui Jingtao | Corporate(iii) | 48,609,756 | 10.89% |
| Success Profit | Corporate(iii) | 48,609,756 | 10.89% |
| Top Result | Beneficial Owner(iii) | 48,609,756 | 10.89% |

*Notes:*

(i) HSBC International Trustee Limited ("HSBC International") is the trustee of family trusts which, through intermediate holding companies (including but not exclusively River Road Investments Limited ("River Road"), Knight Bridge Holdings Limited ("Knight Bridge"), 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.

(ii) As at 31 December 2008, Prime Century directly held 179,644,974 shares and Ever Novel directly held 37,194,049 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 179,644,974 shares in the Company held directly by Prime Century.

(iii) Ms. Cui is deemed to be interested in the shares 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 ("Success Profit"), which is wholly owned by Ms. Cui.

Save as disclosed above, as at 31 December 2008, the Directors of the Company are not aware of any other person or corporation other than the Directors or chief executives of the Company whose interests are set out in the section "Directors' and chief executives' interests in shares and underlying shares" above having an interest or short position in the shares or underlying shares of the Company representing 5% or more of the issued share capital of the Company which is required to be recorded pursuant to section 336 of the SFO.

## CONNECTED TRANSACTIONS

Reference is made to the subsection "Structure Contracts" under the section "History and Development" and the section "Connected Transactions" in the Prospectus. Due to restrictions in the PRC laws and regulations on foreign investment in businesses providing telecommunications value-added services in the PRC, the Group has entered into a number of contracts (the "Structure Contracts") with certain connected persons of the Company to operate the Group's relevant businesses in the PRC. The Structure Contracts are designed to provide the Company with effective control over and (to the extent permitted by the PRC laws) the right to acquire the equity interests in and/or assets of these connected persons. Such connected persons include:

1. Mr. Liu Xiaosong, the Chairman and an executive Director of the Company;

2. Mr. Lin Yizhong, an executive Director of the Company;

3. Ms. Cui, a substantial shareholder (as defined in the Listing Rules) of the Company;

4. Huadong Feitian, a limited liability company established in the PRC which is beneficially owned as to 75% by Mr. Liu Xiaosong and 25% by Ms. Cui; and

5. Kuaitonglian, a limited liability company established in the PRC which is beneficially owned as to 100% by Mr. Lin Yizhong.

As transactions under the Structure Contracts will constitute continuing connected transactions of the Company, the Company had obtained waiver from the Stock Exchange from strict compliance with the requirements set out in Chapter 14A of the Listing Rules in respect of the continuing connected transactions under the Structure Contracts. Brief details of the Structure Contracts are set out below.

**Coordination Agreement**

Cash River, an indirect wholly owned subsidiary of the Company, entered into the coordination agreement on 20 September 2004 ("Coordination Agreement") with each of Huadong Feitian and Kuaitonglian (each an "Operator" and "each Operator" shall refer to each of Huadong Feitian and Kuaitonglian), respectively, pursuant to which, among other matters, (1) a supervisory management board (the "Supervisory Board") controlled by Cash River was set up to manage the business of the Operator and Cash River, (2) Cash River shall provide certain technology and information services to the Operator in return for the surplus cash (as defined below) and (3) the parties shall enter and cause their relevant affiliates to enter into such agreements (the "Implementation Agreements") as may be required to fulfill the obligations of each party, including a trademark license agreement, a domain name licence agreement, a consultancy services agreement and an agreement for purchase and sale of software.

"Surplus cash" is defined in the Coordination Agreements as immediately available cash of the Operator after deducting the aggregate amount of (i) the working capital required to maintain their daily operations and satisfy their needs for their business; (ii) the cash amount required for capital expenditure; and (iii) any other short-term anticipated expenditure, all as determined by the Supervisory Board from time to time.

The Coordination Agreements are effective from 1 January 2004 and remain in effect for the term of incorporation of the Operator but Cash River is entitled to terminate the agreements at its sole discretion with one month's notice.

Pursuant to the Coordination Agreements, Cash River entered into the following Implementation Agreements with Huadong Feitian and Kuaitonglian:

*Consultancy Agreement*

Cash River entered into the consultancy agreement on 20 September 2004 ("Consultancy Agreement") with each Operator, respectively, pursuant to which, among other matters, Cash River agreed to provide the Operator with technical consultancy services and information consultancy services in return for a monthly consultancy service fee in an amount as determined by the Supervisory Board, subject to a maximum amount of RMB40 million for any financial year of the Operator.

The Consultancy Agreement is valid for three years from 20 September 2004 and should be automatically renewed for further three-year period unless Cash River gives the Operator notice of its intention not to extend the term at least one month prior to the expiration of the then current term.

*Software SPA*

Cash River entered into the software SPA on 20 September 2004 ("Software SPA") with each Operator, respectively, pursuant to which, among other matters, Cash River agreed to sell and the Operator agreed to purchase the software used to assist the Operator to develop interactive entertainment, social networking and other mobile value-added services for the Operator's provision of its business. The consideration for such software should be confirmed by separate detailed contracts for individual specific software.

The Software SPA is effective from 20 September 2004 and remains in effect until full performance of both parties of their respective obligations under the terms of the agreement.

*Trademark Licence Agreement*

Cash River entered into the trademark licence agreement on 20 September 2004 ("Trademark Licence Agreement") with Huadong Feitian and pursuant to this agreement, among other matters, Huadong Feitian granted an exclusive license to Cash River in respect of its registered trademarks or trademarks being applied for registration (the "Licensed Trademark") that it owns in the PRC at RMB1.00 or at the lower amount permitted by the PRC laws.

The licence with respect to each of such Licensed Trademark is valid for the effective period (including the renewal period) of that particular Licensed Trademark, provided that the Trademark License Agreement is not terminated in accordance with its terms and conditions.

*Domain Name Licence Agreement*

Cash River entered into the domain name license agreement on 20 September 2004 ("Domain Name License Agreement") with Huadong Feitian and pursuant to this agreement, among other matters, Huadong Feitian granted an exclusive licence to Cash River in respect of its registered domain names (the "Licensed Domain Name") at RMB1.00 or at the lowest amount permitted by the PRC laws.

The license with respect to each Licensed Domain Name is valid for the effective period (including the renewal period) of that particular Licensed Domain Name, provided that the Domain Name License Agreement is not terminated in accordance with its terms and conditions.

### Exclusive Right and Pledge Agreement

On 20 September 2004, Cash River entered into the exclusive right and pledge agreement ("Exclusive Right and Pledge Agreement") with each Operator individually and the respective Operator's shareholders, pursuant to which, among other matters:

– the Operator's shareholders granted Cash River an irrevocable and exclusive right to purchase, or designate any person to purchase on its behalf, all or part of their respective equity interests in the Operator, in one or more transfers as determined by Cash River in its sole discretion at the purchase price(s) of RMB1.00 or such higher amount as required by the PRC laws;

– each Operator granted Cash River an irrevocable and exclusive right to purchase, or to designate any person to purchase on its behalf, all or part of its assets, including, among others, fixed assets, current assets, intellectual property rights, ownership of equity interests in any person within or outside the PRC and the benefit (subject to the burden) of all contracts entered into by the Operator at the purchase price of RMB1.00 or such higher amount as required by the PRC laws;

– as collateral security for the prompt and full performance of the Operator's shareholders' obligations under the agreement, the Operator's shareholders granted to Cash River a continuing security interest of first priority and subject to no other encumbrances in their respective equity interests in the Operator;

– the Operator's shareholders jointly and severally covenanted that he/she will, among others, waive his/her right of first refusal or pre-emptive right to acquire any equity interests in the Operator being transferred by another shareholder of the Operator; and

– the Operator covenanted that it will, among others, not distribute profits to its shareholders directly or indirectly, not acquire or make any investment in any person without Cash River's prior written consent.

Each of the Exclusive Right and Pledge Agreements is effective from 20 September 2004 and remains in effect until the earliest of (i) the discharge in full of the Operator's shareholders obligations under the agreement; (ii) the completion of the disposal of the equity interests in the Operator in accordance with the terms of the agreement; or (iii) the expiry of the entire term of incorporation of the Operator as such term may be extended in accordance with PRC laws. Notwithstanding anything contained in the agreement, the agreement shall terminate automatically upon the exercise in full by Cash River of its right to purchase the registered capital of the Operator or upon the dissolution of the Operator.

The Company's independent non-executive Directors reviewed and confirmed that (i) the transactions carried out during the financial year had been entered into in accordance with the relevant provisions of the Structure Contracts so that the revenue generated by Huadong Feitian and Kuaitongtian and their subsidiaries had been mainly retained by the Group; (ii) no dividends or other distributions had been made by Huadong Feitian and Kuaitonglian to their shareholders; and (iii) any new Structure Contracts entered into, renewed or reproduced between the Group and Huadong Feitian and Kuaitonglian during the financial year were fair and reasonable, or advantageous, so far as the Group was concerned and in the interests of the Company and its shareholders as a whole.

The auditors of the Company had carried out review procedures on the transactions carried out during the financial year pursuant to the Structure Contracts and had provided a letter to the Board of the Company confirming that the transactions had been approved by the Board, had been entered into in accordance with the relevant Structure Contracts and that no dividends or other distributions had been made by Huadong Feitian and Kuaitonglian to their shareholders.

Prior to the listing of the shares of the Company, the Group had entered into a number of transactions which constituted connected transaction under the Listing Rules as detailed in note 33 to the financial statements other than the transactions under the Structure Contracts. All such transactions had been terminated before the Listing Date.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the latest practicable date prior to the issue of this annual report.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the Directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group.

Each of the controlling shareholders (within the meaning under the Listing Rules) of the Company, namely Mr. Liu Xiaosong, Prime Century, Ever Novel and Grand Idea Holdings Limited, entered into a deed of non-compete dated 26 May 2008 (the "Deed of Non-compete") in favor of the Company (for itself and the benefits of other members of the Group), pursuant to which he/it has undertaken to the Company that he/it would not, and would procure that his/its associates would not, during the restricted period set out below, directly or indirectly, either on his/its own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time. Details of the non-competition undertaking have been set out in the subsection headed "Non-competition undertaking" under the section headed "Relationship with Controlling Shareholders" of the Prospectus.

The "restricted period" stated in the Deed of Non-compete refers to the period during which:

(i) the shares of the Company remain listed on the Stock Exchange;

(ii) regarding any member of the controlling shareholders, so long as he or his associates directly or indirectly holds an equity interest in the Group; and

(iii) the controlling shareholders jointly are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company.

The Company has received the annual confirmations from each of the controlling shareholders of the Company in respect of their respective compliance with the terms of the Deed of Non-compete.

## AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the accounting policies, accounting standards and practices adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the consolidated financial statements and results of the Group for the year ended 31 December 2008.

## AUDITORS

The financial statements have been audited by the Company's auditors, Ernst & Young, who will retire and, being eligible, will offer themselves for reappointment at the forthcoming annual general meeting.

There has been no change of the auditors of the Company since the listing of the Company's shares on the Stock Exchange on the Listing Date.

ON BEHALF OF THE BOARD
**Liu Xiaosong**
*Chairman*

Hong Kong
25 March 2009

The Group is committed to achieving high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

Good corporate governance has always been recognised as vital to the Group's success and to sustaining development of the Group. We are committed to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of our business.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules.

The CG Code contained in Appendix 14 of the Listing Rules sets out the principles of good corporate governance and two levels of corporate governance practices:

(a) code provisions which listed issuers are expected to comply with or to give considered reasons for any deviation; and

(b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or to give considered reasons for deviation.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

Throughout the period ended 31 December 2008, the Company has complied with the code provisions as set out in the CG Code, except for the deviations from code provisions A.1.1 and A.2.1 which are explained in the relevant paragraphs in this Report.

The Company has also put in place certain recommended best practices as set out in the CG Code.

The Company regularly reviews its corporate governance practices to ensure compliance with the CG Code.

The Company will continue to enhance its corporate governance practices appropriate to the conduct and growth of its business and to review its corporate governance practices from time to time to ensure that they comply with the statutory and professional standards and align with the latest developments.

## THE BOARD

### Responsibilities

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the senior management the authority and responsibilities for the day-to-day management and operations of the Group. In addition, the Board has established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

The overall management of the Company's business is vested in the Board, which assumes the responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. All directors take decisions objectively in the interests of the Company.

All directors have carried out their duties in good faith and in compliance with the standards of applicable laws and regulations, and have acted in the interests of the Company and its shareholders at all times.

The Company has arranged for appropriate insurance cover for directors' and officers' liabilities in respect of legal actions against its directors and senior management arising out of corporate activities.

### Delegation of Management Functions

The Board reserves for its decisions all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflicts of interest), financial information, appointment of directors and other significant financial and operational matters.

All directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. Each director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and work tasks are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the abovementioned officers.

The Board has the full support of the Chief Executive Officer and the senior management to discharge its responsibilities.

### Board Composition

The Board currently comprises 7 members, consisting of 3 executive directors, 1 non-executive director and 3 independent non-executive directors.

The Company has adopted the recommended best practice under the CG Code for the Board to have at least one-third of its members comprising independent non-executive directors.

The list of all directors is set out under "Corporate Information" on page 3 of this annual report and all corporate communications issued by the Company from time to time pursuant to the Listing Rules. The independent non-executive directors are expressly identified in all corporate communications pursuant to the Listing Rules.

None of the members of the Board is related to one another.

During the period ended 31 December 2008, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company has received written annual confirmation from each independent non-executive director of his independence pursuant to the requirements of the Listing Rules. The Company considers all independent non-executive directors to be independent in accordance with the independence guidelines set out in the Listing Rules.

The non-executive directors bring a wide range of business and financial expertise, experience and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflicts of interest and serving on Board committees, all non-executive directors have made various contributions to the effective direction of the Company.

### Appointment, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of directors are laid down in the Company's articles of association. The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for nomination and appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of independent non-executive directors.

Each of the executive directors of the Company is engaged on a service contract for a term of three years. The appointment may be terminated by not less than three months' written notice.

Each of the non-executive directors of the Company is appointed for a specific term of three years and is subject to retirement by rotation once every three years.

In accordance with the Company's articles of association which were amended by a written resolution dated 26 May 2008, all directors of the Company are subject to retirement by rotation at least once every three years and any new director appointed to fill a causal vacancy or as an addition to the Board shall submit himself/herself for re-election by shareholders at the first general meeting and first annual general meeting respectively after appointment.

The Board reviews its own structure, size and composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company.

Where vacancies on the Board exist, the Board will carry out the selection process by making reference to the skills, experience, professional knowledge, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process where necessary.

The Board recommended the re-appointment of the directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 17 April 2009 contains detailed information of the directors standing for re-election.

## Induction and Continuing Development for Directors

Each newly appointed director receives formal, tailored and comprehensive induction on the first occasion of his/her appointment, so as to ensure that he/she has appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements. Such induction shall be supplemented with meetings with senior management of the Company.

The directors are continually updated with developments in the legal and regulatory regime and the business and market environments to facilitate the discharge of their responsibilities. Continuing briefing and professional development for directors will be arranged whenever necessary.

## Board and Board Committee Meetings

Code provision A.1.1 prescribes that at least 4 regular Board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

After the Company was listed on the Stock Exchange on the Listing Date and up to the period ended 31 December 2008, three Board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

*Number of Meetings and Directors' Attendance*

The attendance records of each director at the Board meetings for the period ended 31 December 2008 are set out below:

| **Name of Director** | **Attendance/ Number of Meetings** |
|---|---|
| Mr. Liu Xiaosong *(Chairman)* | 3/3 |
| Mr. Lin Yizhong | 3/3 |
| Ms. Ho Yip, Betty | 3/3 |
| Mr. Zhong Xiaolin[(1)] | 2/3 |
| Mr. Li Wei | 3/3 |
| Mr. Chan Yiu Kwong | 3/3 |
| Mr. Hui, Harry Chi | 3/3 |
| Mr. Song Yong Hua | 3/3 |

Apart from regular Board meetings, a meeting between the Chairman and the non-executive directors (including independent non-executive directors) without the presence of executive directors was also held during the year. The attendance rate of this meeting was 100%.

*Note:*

1. Mr. Zhong Xiaolin resigned as a non-executive director of the Company on 20 November 2008.

*Practices and Conduct of Meetings*

Annual meeting schedules and draft agenda of each meeting are normally made available to directors in advance.

Notices of regular Board meetings are served to all directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers together with all appropriate, complete and reliable information are sent to all directors at least 3 days before each Board meeting or committee meeting to keep the directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions. The Board and each director also have separate and independent access to the senior management whenever necessary.

The senior management attend, where necessary, Board and committee meetings to advise on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated to directors for comment within a reasonable time after each meeting and the final version is open for directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interest for a substantial shareholder or a director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's articles of association contain provisions requiring directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such directors or any of their associates have a material interest.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

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 code provision A.2.1 during the reporting period.

## BOARD COMMITTEES

The Board has established two committees, namely, the Remuneration Committee and Audit Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website www.a8.com and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 3.

The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

### Remuneration Committee

The Remuneration Committee comprises 3 members, namely Mr. Liu Xiaosong (Chairman), Mr. Song Yong Hua and Mr. Hui, Harry Chi. The majority of them are independent non-executive directors.

The primary objectives of the Remuneration Committee include:

- To make recommendations on the establishment of procedures for developing remuneration policy and structure of the executive directors and the senior management, which policy shall ensure that no director or any of his/her associates will participate in deciding his/her own remuneration;

- To review and approve the remuneration packages of the executive directors and the senior management by reference to the performance of the individual and the Company as well as market practice and conditions; and

- To make recommendations on the remuneration packages of the non-executive directors by reference to the market practice and conditions as well as the time and efforts devoted by the individual.

The Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration.

Since its establishment on 6 May 2008 to 31 December 2008, there was no meeting held by the Remuneration Committee due to the fact that the Company's shares were just listed on the Stock Exchange on the Listing Date. A meeting was held subsequent to the year-end date for reviewing the remuneration package of the directors and senior management.

### Audit Committee

The Audit Committee comprises three independent non-executive directors, namely Mr. Chan Yiu Kwong (Chairman), Mr. Song Yong Hua and Mr. Hui, Harry Chi (including one independent non-executive director with the appropriate professional qualifications and accounting and related financial management expertise). None of the members of the Audit Committee is a former partner of the Company's existing external auditors.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the staff responsible for the accounting and financial reporting function, compliance officer, internal auditor or external auditors before submission to the Board.

- To review the fees and terms of engagement of the external auditors by reference to the work performed by the auditors and make recommendation to the Board on the appointment, re-appointment and removal of external auditors.

- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.

The Audit Committee held two meetings during the period ended 31 December 2008 to review the financial results and reports, financial reporting and compliance procedures and the re-appointment of the external auditors.

The external auditors were invited to attend the meetings to discuss with the Audit Committee issues arising from the audit and financial reporting matters.

The attendance records of the Audit Committee are set out below:

| **Name of Director** | **Attendance/ Number of Meetings** |
|---|---|
| Mr. Chan Yiu Kwong *(Chairman)* | 2/2 |
| Mr. Hui, Harry Chi | 1/2 |
| Mr. Song Yong Hua | 2/2 |

The Company's annual results for the year ended 31 December 2008 have been reviewed by the Audit Committee.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its Own Code on terms no less exacting than the Model Code as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the period ended 31 December 2008.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

## DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2008.

The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, price-sensitive announcements and other disclosures required under the Listing Rules and other regulatory requirements.

The senior management has provided such explanation and information to the Board as necessary to enable the Board to carry out an informed assessment of the financial information and position of the Company put to the Board for approval.

## EXTERNAL AUDITORS AND AUDITORS' REMUNERATION

The statement of the external auditors of the Company about their reporting responsibilities for the financial statements is set out in the "Independent Auditors' Report" on pages 47 to 48.

During the year ended 31 December 2008, the remuneration paid to the Company's external auditors, Messrs Ernst & Young, is set out below:

| **Category of services** | **Fee paid/payable** *(RMB'000)* |
|---|---|
| Audit services | 1,408 |
| Non-audit services | |
| – acting as reporting accountants in respect of the issue of prospectus dated 28 May 2008 | 4,857 |
| – other services | 314 |
| Total | 6,579 |

## INTERNAL CONTROLS

During the year under review, the Board, through the Audit Committee, has conducted a review of the effectiveness of the internal control system of the Company including the efficiency of business operation, financial management and risk management of operating flow, etc.

The Board is responsible for maintaining an adequate internal control system to safeguard shareholder investments and Company assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

The Company has developed its systems of internal control and risk management and will continue to review and assess procedures for their effectiveness.

The Audit Committee provides supervision of the internal control system of the Group, reports to the Board on any material issues and makes recommendations.

The internal control system of the Group is designed to facilitate effective and efficient operations, to ensure reliability of financial reporting and compliance with applicable laws and regulations, to identify and manage potential risks, and to safeguard assets of the Group. The senior management reviews and evaluates the control process, monitors any risk factors on a regular basis, and reports to the Audit Committee on any findings and measures to address variances and identified risks.

The key elements of the Group's internal control system include the following:

- The organisational structure is clearly defined with distinct lines of authority and control responsibilities.
- A comprehensive financial accounting system has been established to provide indicators for performance measurement and to ensure compliance with relevant rules.
- Plans for financial reporting, operations and compliance with reference to potential significant risks are prepared annually by the senior management.
- Unauthorised expenditures and release of confidential information are strictly prohibited.
- Specific approval by responsible senior executive prior to commitment is required for all material matters.
- Proper policy is in place to ensure the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget.
- The control process and risk factors are reviewed, evaluated, and monitored on a regular basis so that any findings and measures to address the variances and identified risks could be reported to the Audit Committee.

During the year under review, the Company engaged an external professional adviser to initiate an independent review covering the financial, operational, compliance and risk management functions of the Group and has set up an internal audit department to review and check internal control regularly and systematically. Report from the external professional adviser and internal audit department were presented to and reviewed by the Audit Committee.

## COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognises the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

The general meetings of the Company provide the best opportunity for communication between the Board and the shareholders. The Chairman of the Board as well as chairmen of the Remuneration Committee and Audit Committee and, in their absence, other members of the respective committees, are available to answer questions at shareholder meetings.

To promote effective communication, the Company maintains a website at www.a8.com, where extensive information and updates on the Company's business developments and operations, financial information, corporate governance practices and other information are available for public access.

## SHAREHOLDER RIGHTS

To safeguard shareholder interests and rights, separate resolutions are proposed at shareholder meetings on each substantial issue, including the election of individual directors.

All resolutions put forward at a shareholder meeting will be taken by poll pursuant to the Listing Rules and the poll results will be posted on the websites of the Company and of the Stock Exchange after the shareholder meeting.

ERNST & YOUNG
安 永

**To the shareholders of A8 Digital Music Holdings Limited**
(Formerly known as A8 Music International Limited)
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of A8 Digital Music Holdings Limited and its subsidiaries set out on pages 49 to 122, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

25 March 2009

# CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2008*

| | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| Revenue | | **706,079** | 285,964 |
| Business tax | | **(14,196)** | (7,860) |
| Net revenue | 6 | **691,883** | 278,104 |
| Cost of services provided | | **(425,806)** | (149,375) |
| Gross profit | | **266,077** | 128,729 |
| Other income and gains, net | 6 | **7,624** | 20,180 |
| Gain arising from disposal of an equity interest in a jointly-controlled entity | | **–** | 5,694 |
| Selling and marketing expenses | | **(115,281)** | (67,073) |
| Administrative expenses | | **(44,180)** | (21,715) |
| Other expenses | | **(17,257)** | (70) |
| Finance costs | 7 | **(2,015)** | (4,913) |
| Share of profits and losses of jointly-controlled entities | | **–** | (347) |
| PROFIT BEFORE TAX | 8 | **94,968** | 60,485 |
| Tax | 10 | **(14,168)** | (5,248) |
| PROFIT FOR THE YEAR | | **80,800** | 55,237 |
| Attributable to: | | | |
| Equity holders of the Company | 11 | **80,170** | 55,274 |
| Minority interests | | **630** | (37) |
| | | **80,800** | 55,237 |
| DIVIDEND | 12 | **Nil** | N/A |
| EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | 13 | | |
| Basic (RMB per share) | | **0.20** | N/A |
| Diluted (RMB per share) | | **0.19** | N/A |

# CONSOLIDATED BALANCE SHEET

*31 December 2008*

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | **6,328** | 6,832 |
| Prepaid land lease payments | 15 | **28,583** | – |
| Intangible assets | 16 | **703** | 360 |
| Deferred tax assets | 25 | **4,899** | – |
| Total non-current assets | | **40,513** | 7,192 |
| CURRENT ASSETS | | | |
| Accounts receivable | 18 | **101,657** | 64,809 |
| Amounts due from related parties | 33(b) | **–** | 59,708 |
| Prepayments, deposits and other receivables | 19 | **19,572** | 21,552 |
| Equity investments at fair value through profit or loss | 20 | **1,949** | 5,711 |
| Tax recoverable | | **–** | 900 |
| Cash and cash equivalents | 21 | **315,643** | 131,315 |
| Total current assets | | **438,821** | 283,995 |
| CURRENT LIABILITIES | | | |
| Accounts payable | 22 | **58,617** | 18,049 |
| Other payables and accruals | 23 | **39,121** | 18,753 |
| Amount due to a related party | 33(c) | **–** | 3,558 |
| Tax payable | | **10,997** | – |
| Deferred income | | **4,000** | – |
| Total current liabilities | | **112,735** | 40,360 |
| NET CURRENT ASSETS | | **326,086** | 243,635 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **366,599** | 250,827 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 25 | **813** | 813 |
| Convertible redeemable preferred shares | 24 | **–** | 68,510 |
| Total non-current liabilities | | **813** | 69,323 |
| Net assets | | **365,786** | 181,504 |

# CONSOLIDATED BALANCE SHEET *(Continued)*

*31 December 2008*

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| EQUITY | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Issued capital | *26* | **3,944** | 512 |
| Reserves | *28(a)* | **361,192** | 180,972 |
| | | **365,136** | 181,484 |
| **Minority interests** | | **650** | 20 |
| Total equity | | **365,786** | 181,504 |

**Liu Xiaosong**
*Director*

**Ho Yip, Betty**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*Year ended 31 December 2008*

| | Attributable to equity holders of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Issued capital RMB'000 (note 26) | Share premium account RMB'000 (note 26) | Merger reserve RMB'000 (note 28) | Surplus contributions RMB'000 (note 28) | Employee share-based compensation reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Capital reserve RMB'000 | Statutory reserve funds RMB'000 (note 28) | Reserve fund RMB'000 (note 28) | Retained profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
| At 1 January 2007 | 512 | – | 28,680 | 10,522 | – | – | 800 | 3,446 | 4,422 | 75,232 | 123,614 | 57 | 123,671 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 55,274 | 55,274 | (37) | 55,237 |
| Exchange realignment and total income and expense recognised directly in equity | – | – | – | – | – | 2,596 | – | – | – | – | 2,596 | – | 2,596 |
| 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 and 1 January 2008 | 512 | – | 28,680* | 10,522* | – | 2,596* | 800* | 6,829* | 4,422* | 127,123* | 181,484 | 20 | 181,504 |
| Profit for the year | – | – | – | – | – | – | – | – | – | 80,170 | 80,170 | 630 | 80,800 |
| Exchange realignment and total income and expense recognised directly in equity | – | – | – | – | – | (217) | – | – | – | – | (217) | – | (217) |
| Total income and expense for the year | – | – | – | – | – | (217) | – | – | – | 80,170 | 79,953 | 630 | 80,583 |
| 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 |
| Remuneration shares issued | 5 | (5) | – | – | – | – | – | – | – | – | – | – | – |
| Over-allotment of shares | 51 | 9,191 | – | – | – | – | – | – | – | – | 9,242 | – | 9,242 |
| Share issue expenses | – | (15,385) | – | – | – | – | – | – | – | – | (15,385) | – | (15,385) |
| Equity-settled share option arrangement | – | – | – | – | 7,089 | – | – | – | – | – | 7,089 | – | 7,089 |
| Distribution to a then shareholder of a subsidiary *(note 12)* | – | – | – | – | – | – | – | – | – | (97,808) | (97,808) | – | (97,808) |
| Deemed distribution *(note 12)* | – | (8,969) | – | – | – | – | 8,969 | – | – | – | – | – | – |
| Transfer from retained profits | – | – | – | – | – | – | – | 6,273 | – | (6,273) | – | – | – |
| **At 31 December 2008** | **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** |

* These reserve accounts comprise the reserves of RMB361,192,000 (2007: RMB180,972,000) in the consolidated balance sheet.

# CONSOLIDATED CASH FLOW STATEMENT

*Year ended 31 December 2008*

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | **94,968** | 60,485 |
| Adjustments for: | | | |
| Finance costs | 7 | **2,015** | 4,913 |
| Depreciation | 8 | **2,994** | 3,500 |
| Amortisation of prepaid land lease payments | 8 | **97** | – |
| Amortisation of intangible assets | 8 | **87** | 110 |
| Loss on disposal of items of property, plant and equipment | 8 | **288** | 4 |
| Gain on disposal of investments at fair value through profit or loss | 6 | **(60)** | (3,083) |
| Fair value gain on derivative financial instruments | 6 | **–** | (3,067) |
| Fair value loss/(gain) on investments at fair value through profit or loss | 6, 8 | **3,811** | (2,885) |
| Realisation of an unrealised gain arising from a transfer of assets from Huadong Feitian to a jointly-controlled entity | 6 | **–** | (1,450) |
| Interest income | 6 | **(2,611)** | (1,138) |
| Dividend income from investments at fair value through profit or loss | 6 | **–** | (153) |
| Gain on disposal of subsidiaries | 6, 29 | **–** | (152) |
| Gain arising from disposal of an equity interest in a jointly-controlled entity | | **–** | (5,694) |
| Share of profits and losses of jointly-controlled entities | | **–** | 347 |
| Equity-settled share option expenses | 8 | **7,089** | – |
| | | **108,678** | 51,737 |
| Increase in accounts receivable | | **(36,848)** | (27,256) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **2,565** | (4,637) |
| Increase in accounts payable | | **40,568** | 5,618 |
| Increase in other payables and accruals | | **20,368** | 1,442 |
| Increase in deferred income | | **4,000** | – |
| Decrease in an amount due to a minority shareholder | | **–** | (272) |
| Cash generated from operations | | **139,331** | 26,632 |
| Tax paid | | **(7,170)** | (9,411) |
| Net cash inflow from operating activities | | **132,161** | 17,221 |

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Disposal of subsidiaries, net of cash received | 29 | – | (1,016) |
| Purchases of items of property, plant and equipment | 14 | (2,982) | (919) |
| Proceeds from disposal of items of property, plant and equipment | | 204 | 25 |
| Purchase of prepaid land lease payments | 15 | (29,265) | – |
| Purchases of intangible assets | 16 | (430) | – |
| Proceeds from disposal of an interest in a jointly-controlled entity | | – | 13,224 |
| Decrease/(increase) in amounts due from related parties | | 59,708 | (22,331) |
| Increase/(decrease) in an amount due to a related company | | (3,558) | 3,558 |
| Purchase of investments at fair value through profit or loss | | – | (4,691) |
| Proceeds from sale of investments at fair value through profit or loss | | 11 | 4,948 |
| Dividend income from investments at fair value through profit or loss | | – | 153 |
| Interest received | | 2,611 | 1,138 |
| Net cash inflow/(outflow) from investing activities | | 26,299 | (5,911) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Distribution to a then shareholder of a subsidiary | | (97,808) | – |
| Proceeds from issue of shares in connection with the listing | | 134,335 | – |
| Over-allotment of shares | | 9,242 | – |
| Share issue expenses | | (15,385) | – |
| Net cash inflow from financing activities | | 30,384 | – |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 188,844 | 11,310 |
| Cash and cash equivalents at beginning of year | | 131,315 | 123,359 |
| Effect of foreign exchange rate changes, net | | (4,516) | (3,354) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 315,643 | 131,315 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and bank balances | | 260,670 | 130,199 |
| Short term deposits | | 54,973 | 1,116 |
| | | 315,643 | 131,315 |

# BALANCE SHEET

*31 December 2008*

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiaries | *17* | **74,434** | – |
| CURRENT ASSETS | | | |
| Other receivables | | **143** | – |
| Cash and cash equivalents | *21* | **128,002** | 3 |
| Total current assets | | **128,145** | 3 |
| CURRENT LIABILITIES | | | |
| Amount due to a related party | | **–** | 5 |
| Amount due to a subsidiary | *17* | **585** | – |
| Total current liabilities | | **585** | 5 |
| NET CURRENT ASSETS/(LIABILITIES) | | **127,560** | (2) |
| Net assets/(liabilities) | | **201,994** | (2) |
| EQUITY/(DEFICIENCY IN ASSETS) | | | |
| Issued capital | *26* | **3,944** | – |
| Reserves | *28(b)* | **198,050** | (2) |
| Total equity/(deficiency in assets) | | **201,994** | (2) |

**Liu Xiaosong**
*Director*

**Ho Yip, Betty**
*Director*

## 1. CORPORATE INFORMATION AND 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. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, 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.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 June 2008 (the "Listing Date").

On 2 October 2007, the Company was incorporated with authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each. On the same day, one ordinary share of HK$0.10 of the Company was allotted and issued nil paid to Codan Trust Company (Cayman) Limited, which was subsequently transferred to Mr. Liu Xiaosong. To rationalise the corporate structure in preparation for the listing of its shares on the Stock Exchange (the "Listing"), the Company underwent a reorganisation (the "Reorganisation") of which the following principal steps were implemented:

(a) On 5 May 2008, the Company subdivided each of its ordinary shares of HK$0.10 each into 10 shares of HK$0.01 each. The number of authorised and issued ordinary shares increased from 3,800,000 to 38,000,000 and from 1 to 10, respectively;

(b) On 21 May 2008, 930,000 ordinary shares of HK$0.01 each in the authorised share capital of the Company were converted into 930,000 series A convertible preferred shares of HK$0.01 each;

(c) On 22 May 2008, an instrument of transfer was signed between Mr. Liu Xiaosong ("Mr. Liu", the then sole shareholder of the Company) and Prime Century Technology Limited ("Prime Century", one of the then shareholders of A8 Music Group Limited ("A8 Music")), pursuant to which Mr. Liu transferred the 10 issued ordinary shares of HK$0.01 each of the Company held by him to Prime Century;

(d) On 26 May 2008, New Media Group Overseas Limited ("New Media"), a company then wholly-owned by Mr. Liu, acquired the entire issued capital of A8 Music in consideration of the issuance and allotment of its shares to the then shareholders of A8 Music, such that the shareholding structure of New Media immediately after the allotment was the same as the then shareholding structure of A8 Music; and

(e) On 26 May 2008, the Company acquired the entire issued capital of A8 Music in consideration of the Company's issued and allotted fully paid 6,449,990 ordinary shares and 930,000 series A convertible preferred shares of HK$0.01 each to the shareholders of New Media, and the Company's crediting as fully paid the 10 ordinary shares of HK$0.01 each held by Prime Century.

## 1. CORPORATE INFORMATION AND GROUP REORGANISATION *(Continued)*

Upon the completion of the Reorganisation on 26 May 2008, the Company became the holding company of the companies now comprising the Group.

A8 Music and its subsidiaries are principally engaged in selling music content through mobile phones as ringtone, ringback tone and interactive voice response music in the People's Republic of China (the "PRC" or "Mainland China").

## 2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 26 May 2008. Since the Company and the companies now comprising the Group were under common control both before and after the completion of the Reorganisation, the Reorganisation was accounted for using merger accounting. The financial statements have been prepared on the basis as if the Company has always been the holding company of A8 Music.

The consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the years ended 31 December 2008 and 2007 include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the years ended 31 December 2008 and 2007, or since their respective dates of acquisition, incorporation or establishment, where this is a shorter period. The consolidated balance sheet of the Group as at 31 December 2007 has 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.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

## 2.2 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), 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.

The financial statements 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. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## 3.1 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND EARLY ADOPTION OF NEW ACCOUNTING STANDARDS

The Group has adopted the following new interpretations and amendments to IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

| | |
|---|---|
| IAS 39 and IFRS 7 Amendments | Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets* |
| IFRIC-Int 11 | IFRS 2 – *Group and Treasury Share Transactions* |
| IFRIC-Int 12 | *Service Concession Arrangements* |
| IFRIC-Int 14 | IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* |

The Group has also early adopted the IFRS 1 and IAS 27 Amendments – Amendments to IFRS 1 *First time adoption of IFRSs and* IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.*

The early adoption of IFRS 1 and IAS 27 Amendments affects the cost of investment in subsidiaries in the separate financial statements of the parent entity only. There is no other impact on the Group's consolidated financial statements.

The principal effects of adopting these new and revised IFRSs and early adopting the new accounting standards are as follows:

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

## 3.1 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND EARLY ADOPTION OF NEW ACCOUNTING STANDARDS *(Continued)*

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets (Continued)*

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) IFRIC-Int 11 IFRS 2 – *Group and Treasury Share Transactions*

IFRIC-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group's current policy for share-based payment transactions aligns with the requirements of the interpretation, the interpretation has had no effect on its financial statements.

(c) IFRIC-Int 12 *Service Concession Arrangements*

IFRIC-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) IFRIC-Int 14 IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC-Int 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

## 3.1 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS AND EARLY ADOPTION OF NEW ACCOUNTING STANDARDS *(Continued)*

(e) IFRS 1 and IAS 27 Amendments – Amendments to IFRS 1 *First time adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.*

IAS 27 Amendments specify the accounting in the separate financial statements when a newly formed entity becomes the new parent of another entity in a group:

- the new parent entity issues equity instruments as a consideration in the reorganisation;
- there is no change in the group's assets or liabilities as a result of the reorganisation; and
- there is no change in the interest of the shareholders of the original parent, either absolute or relative to one another, as a result of the reorganisation.

In such case, the new parent entity shall measure the cost of investment at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. The early adoption of IFRS 1 and IAS 27 Amendments affects the cost of investment in subsidiaries in the separate financial statement of the parent entity only. There is no other impact on the Group's consolidated financial statements.

## 3.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

Except for the early adoption of IFRS 1 and IAS 27 Amendments – Amendments to IFRS 1 *First time adoption of IFRSs and* IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*, the Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| IFRS 2 Amendments | Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1] |
| IFRS 3 (Revised) | *Business Combinations*[2] |
| IFRS 7 Amendments | *Amendments to IFRS 7 Improving Disclosures about Financial Instruments*[1] |
| IFRS 8 | *Operating Segments*[1] |
| IAS 1 (Revised) | *Presentation of Financial Statements*[1] |
| IAS 23 (Revised) | *Borrowing Costs*[1] |
| IAS 27 (Revised) | *Consolidated and Separate Financial Statements*[2] |
| 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*[1] |

## 3.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(Continued)*

| | |
|---|---|
| IAS 39 Amendment | Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2] |
| IFRIC-Int 13 | *Customer Loyalty Programmes*[3] |
| IFRIC-Int 15 | *Agreements for the Construction of Real Estate*[1] |
| IFRIC-Int 16 | *Hedges of a Net Investment in a Foreign Operation*[4] |
| IFRIC-Int 17 | *Distribution of Non-cash Assets to Owners*[2] |
| IFRIC-Int 18 | *Transfer of Assets from Customers*[2] |

Apart from the above, the IASB has issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to IFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

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 IFRS 8 and IAS 1 (Revised) may result in new or amended disclosures and the adoption of IFRS 3 (Revised) may result in changes in accounting policies, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of consolidation

The financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. 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 year ended 31 December 2008 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 consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Basis of consolidation *(Continued)*

The consolidated income statement includes 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. 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.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### 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 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Joint ventures** *(Continued)*

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 consolidated income statement and consolidated reserves, respectively. The Group's investments in jointly-controlled entities are stated in the consolidated 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 assets transferred.

**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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Impairment of non-financial assets other than goodwill *(Continued)*

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 an 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 an 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 least 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets (other than goodwill) (Continued)

*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.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised 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 flows 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial assets *(Continued)*

*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 policies 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.

*Fair value*

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flows analysis, and option pricing models.

### 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

*Assets carried at amortised cost (Continued)*

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 accounts 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Derecognition of financial assets *(Continued)*

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 or 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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 consolidated cash flow statement, 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 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Income tax** *(Continued)*

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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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

The 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 dates 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 certain subsidiaries is Hong Kong dollars. 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 RMB 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 consolidated cash flow statement, 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 RMB at the weighted average exchange rates for the year.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 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 selling music content through mobile phones as ringtone, ringback tone and interactive voice response music in the PRC.

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 the 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 consolidated income statement 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 benefit 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*

The Company operates a Pre-IPO share option scheme and the 2008 share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. 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.

## 3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Employee benefits** *(Continued)*

*Equity compensation benefits (Continued)*

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 JUDGEMENTS AND ESTIMATES

The preparation of the financial statements require 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.

### (i) Judgements

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:

*(a) Accounting for companies governed under contractual arrangements as subsidiaries*

As further detailed in notes 17(a) and (b) below, A8 Music does not have equity ownership in Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian") and Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian"). Nevertheless, under the contractual agreements entered into between Huadong Feitian, Kuaitonglian, their respective registered owners and A8 Music, 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 the Group for accounting purposes.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### (i) Judgements *(Continued)*

*(b) Accounting for certain Pre-IPO share options as deemed distribution to the then sole shareholder of the Company before the Listing*

The Company granted 10,775,000 Pre-IPO share options to certain individuals in respect of their services to a business commonly owned by New Media, the then sole shareholder of the Company before the Listing. As these individuals had not provided any goods or services to the Group and the Group did not receive any valuable consideration from these individuals or the then sole shareholder of the Company for the Pre-IPO share options granted, management determines that the Pre-IPO shares options granted to these individuals are accounted for as a deemed distribution to the then sole shareholder of the Company. Details of the share option pricing model and the significant inputs of the model are set out in note 27(a) to the financial statements.

### (ii) 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.

## 4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

### (ii) Estimation uncertainty *(Continued)*

*(c) Recognition of share-based compensation expenses*

As detailed in note 27 below, the Company and Join Reach Limited have granted share options to certain employees of the Group and certain directors of the Company in respect of their services to the Group under various share option schemes. The directors have used an external valuer who has applied the Black-Scholes-Merton Option Pricing Model to determine the fair value of the options granted, which is to be expensed over the vesting period. Significant estimation of the parameters for applying the Black-Scholes-Merton Option Pricing Model, such as risk-free interest rate, dividend yield, expected volatility and turnover rate of grantees, is required to be made.

The fair value of options granted during the year ended 31 December 2008, which are recognised as share-based compensation, determined using the Black-Scholes-Merton Option Pricing Model was approximately RMB14,684,000.

## 5. SEGMENT INFORMATION

Over 90% of the Group's revenue and assets are generated from providing music and non-music services to mobile phone users 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:

| | 2008 | 2007 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **Revenue** | | |
| Ringtone services | **86,882** | 72,206 |
| Ringback tone services | **272,912** | 89,498 |
| Interactive voice response music | **119,452** | 20,748 |
| Other music related services | **16,010** | 14,990 |
| Non-music related services | **210,823** | 88,522 |
| | **706,079** | 285,964 |
| Less: Business tax | **(14,196)** | (7,860) |
| Net revenue | **691,883** | 278,104 |
| **Other income and gains, net** | | |
| Government grant | **3,000** | – |
| Interest income | **2,611** | 1,138 |
| Exchange gain | **26** | 75 |
| Gain on disposal of investments at fair value through profit or loss | **60** | 3,083 |
| Rendering of value-added services of mobile phone cards | **–** | 7,004 |
| Fair value gain on derivative financial instruments | **–** | 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 | **–** | 1,450 |
| Management fee income | **–** | 900 |
| Dividend income from investments at fair value through profit or loss | **–** | 153 |
| Gain on disposal of subsidiaries *(note 29)* | **–** | 152 |
| Others | **1,927** | 273 |
| | **7,624** | 20,180 |

## 7. FINANCE COSTS

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest expense on convertible redeemable preferred shares | **2,015** | 4,122 |
| Amortisation of transaction costs | **–** | 791 |
| | **2,015** | 4,913 |

## 8. PROFIT BEFORE TAX

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

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Depreciation | **2,994** | 3,500 |
| Amortisation of intangible assets# | **87** | 110 |
| Amortisation of prepaid land lease payments# | **97** | – |
| Operating lease rentals in respect of office buildings | **3,541** | 3,779 |
| Auditors' remuneration | **1,408** | 66 |
| Employee benefit expense (including directors' remuneration *(note 9)*): | | |
| Wages, salaries and bonuses | **38,629** | 27,475 |
| Welfare, medical and other expenses | **1,200** | 922 |
| Contributions to social security plans | **3,750** | 2,959 |
| Equity-settled share option expenses | **7,089** | – |
| Others | **–** | 881 |
| | **50,668** | 32,237 |
| Loss on disposal of items of property, plant and equipment | **288** | 4 |
| Mobile and Telecom Charges* | **197,496** | 67,969 |
| Fair value loss on investments at fair value through profit or loss** | **3,811** | – |

# Included in "Administrative expenses" on the face of the consolidated income statement.

* Included in "Cost of services provided" on the face of the consolidated income statement.

** Included in "Other expenses" on the face of the consolidated income statement.

## 9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

### (a) Directors' remuneration

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Fees | **116** | – |
| Other emoluments: | | |
| Salaries, bonuses, allowances and benefits in kind | **4,728** | 905 |
| Equity-settled share option expense | **1,711** | – |
| Pension scheme contributions | **37** | 13 |
| | **6,592** | 918 |

During the year, certain directors were granted share options, in respect of their services to the Group, under the 2008 share option scheme of the Company and the Join Reach share option scheme, and a director was awarded shares in a Join Reach Limited which holds indirect interest in the Company in respect of his services to the Group, further details of which are set out in note 27 to the financial statements. The fair value of such options and shares, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above director's remuneration disclosures.

## 9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

### (a) Directors' remuneration *(Continued)*

*(i) Independent non-executive directors*

The fees paid to independent non-executive directors during the year were as follows:

**2008**

| | Fees RMB'000 | Bonuses RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|
| Independent non-executive directors: | | | |
| Mr. Hui Harry Chi | 22 | 27 | 49 |
| Mr. Song Yong Hua | 20 | 23 | 43 |
| Mr. Chan Yiu Kong | 74 | 27 | 101 |
| | 116 | 77 | 193 |

2007

| | Fees RMB'000 | Bonuses RMB'000 | Total remuneration RMB'000 |
|---|---|---|---|
| Independent non-executive directors: | | | |
| Mr. Hui Harry Chi | – | – | – |
| Mr. Song Yong Hua | – | – | – |
| Mr. Chan Yiu Kong | – | – | – |
| | – | – | – |

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

## 9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (Continued)

### (a) Directors' remuneration (Continued)

*(ii) Executive directors and non-executive directors*

| | Fees | Salaries, bonuses, allowances and benefits in kind | Equity-settled share option expense | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **2008** | | | | | |
| Executive directors: | | | | | |
| Mr. Liu Xiaosong | – | 1,348 | – | 12 | 1,360 |
| Ms. Ho Yip, Betty | – | 1,903 | 847 | 12 | 2,762 |
| Mr. Lin Yizhong | – | 1,400 | 864 | 13 | 2,277 |
| | – | 4,651 | 1,711 | 37 | 6,399 |
| Non-executive directors: | | | | | |
| Mr. Li Wei | – | – | – | – | – |
| Mr. Zhong Xiaolin | – | – | – | – | – |
| | – | 4,651 | 1,711 | 37 | 6,399 |
| **2007** | | | | | |
| Executive directors: | | | | | |
| Mr. Liu Xiaosong | – | 647 | – | 11 | 658 |
| Ms. Ho Yip, Betty* | – | 183 | – | 1 | 184 |
| Mr. Lin Yizhong* | – | 75 | – | 1 | 76 |
| | – | 905 | – | 13 | 918 |
| Non-executive directors: | | | | | |
| Mr. Li Wei* | – | – | – | – | – |
| Mr. Zhong Xiaolin* | – | – | – | – | – |
| | – | 905 | – | 13 | 918 |

* These directors were appointed on 9 November 2007. Remuneration paid to Ms. Ho Yip, Betty and Mr. Lin Yizhong for the period from 1 January 2007 to 8 November 2007 (not included in the above directors' remuneration disclosure) were approximately RMB551,000 and RMB535,000, respectively.

## 9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

### (b) Five highest paid individuals

The five highest paid individuals included three (2007: three) directors, details of whose remuneration are set as above. Details of the remuneration of the remaining two (2007: two) non-director, highest paid employees for the year are as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Salaries, bonuses, allowances and benefits in kind | **1,040** | 940 |
| Equity-settled share option expense | **765** | – |
| Pension scheme contributions | **24** | 20 |
| | **1,829** | 960 |

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

| | **Number of employees** | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Nil to RMB1,000,000 | **2** | 2 |

**(c)** During the year, 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

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2007: Nil). The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

An analysis of the income tax charges for the year is as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Group | | |
| Current – PRC | | |
| Charge for the year | **19,067** | 5,248 |
| Deferred *(note 25)* | **(4,899)** | – |
| Total tax charge for the year | **14,168** | 5,248 |

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 (the "DIR") on 6 December 2007, which become effective from I January 2008. According to the New Corporate Income Tax Law, the income tax rates for both domestic and foreign investment enterprises are 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 the 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%, the corporate income tax rate 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.

Shenzhen Yunhai Qingtian Cultural Broadcasting Co. Ltd. ("Yunhai Qingtian") and Kuaitonglian, were established and operate at the Shenzhen Special Economic Zone of the PRC. Accordingly, they are subject to income tax at a rate of 18%.

Beijing Chuangmeng Yinyue Culture Development Co., Ltd. ("Chuangmeng Yinyue"), Beijing Aiyue Cultural Broadcasting Co., Ltd. ("Aiyue"), Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. ("Yuesheng Feiyang") and Beijing Tianlai Cultural Broadcasting Co., Ltd. ("Tianlai") were established in Beijing, the PRC and are subject to income tax at a rate of 25%.

## 10. TAX (Continued)

Huadong Feitian is subject to a preferential tax rate of 15% as it is recognised as a high technology enterprise for the year ended 31 December 2008.

According to the provisions stipulated in the tax circular, Shenguoshuifu Jianmian [2005] No. 15, Cash River Information Technology (Shenzhen) Co. Ltd. ("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. Cash River was established and operate at the Shenzhen Special Economic Zone of the PRC. Accordingly, the applicable income tax rate was 18% and Cash River was subject to a reduced income tax rate of 9% for the year ended 31 December 2008.

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

| | 2008 | | | | | | 2007 | |
|---|---|---|---|---|---|---|---|---|
| | | | the PRC, excluding | | | | | |
| | Hong Kong | | Hong Kong | | Total | | Total | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Profit/(loss) before tax | (13,920) | | 108,888 | | 94,968 | | 60,485 | |
| Tax calculated at the statutory tax rate | (2,297) | 16.5 | 27,222 | 25.0 | 24,925 | 26.2 | 4,536 | 7.5 |
| Preferential tax rates | – | – | (12,000) | (11.0) | (12,000) | (12.6) | (401) | (0.6) |
| Income not subject to tax | (272) | 2.0 | (48) | (0.0) | (320) | (0.3) | (614) | (1.0) |
| Expenses not deductible for tax purposes | 2,569 | (18.5) | 638 | 0.5 | 3,207 | 3.4 | 1,174 | 1.9 |
| Tax losses utilised from previous periods | – | – | (1,687) | (1.5) | (1,687) | (1.8) | – | – |
| Tax losses not recognised | – | – | 43 | 0.0 | 43 | 0.0 | 527 | 0.9 |
| Profits and losses attributable to jointly-controlled entities | – | – | – | – | – | – | 26 | – |
| Tax charge at the Group's effective rate | – | – | 14,168 | 13.0 | 14,168 | 14.9 | 5,248 | 8.7 |

The share of tax expenses attributable to jointly-controlled entities amounting to RMB310,000 is included in "Share of profits and losses of jointly-controlled entities" on the face of the consolidated income statement for the year ended 31 December 2007.

## 11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2008 includes a profit of RMB2,580,000 (2007: loss of RMB2,000) which has been dealt with in the financial statements of the Company (note 28(b)).

## 12. DIVIDEND

The board of directors do not recommend the payment of final dividend for the year.

On 26 May 2008, A8 Music declared a special dividend of RMB97,808,000 to its then sole shareholder, New Media. Such dividend was paid on the same day.

On 26 May 2008, the Company granted Pre-IPO share options to certain individuals which are accounted for as a deemed distribution to the then sole shareholder of the Company. Details are set out in note 4(i)(b) to the financial statements.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Earnings per share information for the year ended 31 December 2007 was not disclosed as the disclosure is not considered meaningful prior to the Reorganisation as disclosed in note 1 above.

The calculation of the basic earnings per share amount for the year ended 31 December 2008 is based on the profit for the year attributable to equity holders of the Company of RMB80,170,000 and the weighted average number of ordinary shares in issue during the year ended 31 December 2008 of 407,513,000, on the assumption that the Reorganisation and the capitalisation issue as detailed in notes 1 and 26 had been completed on 1 January 2008.

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit for the year attributable to equity holders of the Company of RMB80,170,000 as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the 407,513,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 4,537,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares.

## 14. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Computer equipment RMB'000 | Furniture, fixtures and office equipment RMB'000 | Motor vehicles RMB'000 | Leasehold improvements RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2008** | | | | | |
| At 1 January 2008: | | | | | |
| 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 |
| At 1 January 2008, net of accumulated depreciation | 4,526 | 893 | 405 | 1,008 | 6,832 |
| Additions | 1,940 | 255 | 646 | 141 | 2,982 |
| Disposals | (470) | (22) | – | – | (492) |
| Depreciation provided during the year | (1,347) | (623) | (316) | (708) | (2,994) |
| At 31 December 2008, net of accumulated depreciation | 4,649 | 503 | 735 | 441 | 6,328 |
| At 31 December 2008: | | | | | |
| Cost | 10,368 | 2,131 | 2,094 | 3,571 | 18,164 |
| Accumulated depreciation | (5,719) | (1,628) | (1,359) | (3,130) | (11,836) |
| Net carrying amount | 4,649 | 503 | 735 | 441 | 6,328 |

## 14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### Group *(Continued)*

| | 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 29)* | (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 |

## 15. PREPAID LAND LEASE PAYMENTS

| | Group 2008 *RMB'000* |
|---|---|
| Carrying amount at 1 January | – |
| Additions | **29,265** |
| Amortised during the year | **(97)** |
| Carrying amount at 31 December | **29,168** |
| Current portion included in prepayments, deposits and other receivables | **(585)** |
| Non-current portion | **28,583** |

## 16. INTANGIBLE ASSETS

| | Group Trademarks and licences *RMB'000* |
|---|---|
| **31 December 2008** | – |
| Cost at 1 January 2008, net of accumulated amortisation | **360** |
| Additions | **430** |
| Amortisation provided during the year | **(87)** |
| At 31 December 2008 | **703** |
| At 31 December 2008: | |
| Cost | **1,012** |
| Accumulated amortisation | **(309)** |
| Net carrying amount | **703** |
| **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 |

## 17. INTERESTS IN SUBSIDIARIES

| | Company 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Unlisted shares, at cost | **69,369** | – |
| Capital contribution in respect of share-based compensation | **5,065** | – |
| | **74,434** | – |

The amount due to a subsidiary, included in the Company's current liabilities, is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

| Company name | Place of incorporation/ establishment | Paid-up issued/registered capital | Percentage of equity/interest attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| A8 Music Group Limited *(notes (a), (b) and (c))* | British Virgin Islands | 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. *(notes (a), (b) and (c))*#* | PRC | 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. *(notes (a) and (c))*@* | PRC | RMB28,680,000 Registered capital | – | 100 | Provision of telecommunications instant messaging and value-added services |

## 17. INTERESTS IN SUBSIDIARIES *(Continued)*

| Company name | Place of incorporation/ establishment | Paid-up issued/registered capital | Percentage of equity/interest attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| 深圳市雲海情天文化傳播有限公司 Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. *(note (c))**@ | PRC | RMB3,000,000 Registered capital | – | 100 | Dormant |
| 深圳市快通聯科技有限公司 Shenzhen Kuaitonglian Technology Co., Ltd. *(notes (b) and (c))**@ | PRC | RMB10,000,000 Registered capital | – | 100 | Provision of mobile value-added services |
| 北京創盟音樂文化發展有限公司 Beijing Chuangmeng Yinyue Culture Development Co., Ltd. *(note (c))**@ | PRC | RMB5,000,000 Registered capital | – | 72 | Provision of mobile value-added services |
| 北京愛樂空間文化傳播有限公司 Beijing Aiyue Cultural Broadcasting Co., Ltd. *(note (c))**@ | PRC | 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. *(note (c))**@ | PRC | RMB1,000,000 Registered capital | – | 100 | Provision of mobile value-added services |
| 北京天籟印象文化傳播有限公司 Beijing Tianlai Cultural Broadcasting Co., Ltd. *(note (c))**@ | PRC | RMB1,000,000 Registered capital | – | 100 | Dormant |
| Total Plus Limited | Hong Kong | HK$10,000 Issued capital | – | 100 | Dormant |

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

# Registered as a wholly-foreign-owned enterprise under the PRC law.

@ Registered as domestic limited liability companies under the PRC law.

## 17. INTERESTS IN SUBSIDIARIES *(Continued)*

*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; 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. On 30 April 2008, Mr. Wang transferred his 20.66% to Mr. Liu.

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 2006.

On 29 March 2004, the equity interest of A8 Music was restructured and was held by the following companies: 60.28% by 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 17.97% 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.

## 17. INTERESTS IN SUBSIDIARIES *(Continued)*

*Notes: (Continued)*

(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 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.

On 10 March 2008, Ms. Gao and Ms. Cui transferred 100% equity in Kuaitonglian to Mr. Lin Yizhong, a director of the Company.

(c) Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

## 18. ACCOUNTS RECEIVABLE

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Accounts receivable | **101,657** | 66,065 |
| Impairment | **–** | (1,256) |
| | **101,657** | 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.

## 18. ACCOUNTS RECEIVABLE *(Continued)*

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

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **1,256** | 1,256 |
| Amount written off as uncollectible | **(1,256)** | – |
| At 31 December | **–** | 1,256 |

The individually impaired accounts 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:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| *Neither past due nor impaired:* | | |
| Within 1 month | **45,314** | 29,091 |
| 1 to 2 months | **23,201** | 13,658 |
| 2 to 3 months | **16,797** | 7,282 |
| 3 to 4 months | **5,924** | 6,100 |
| *Past due but not impaired:* | | |
| 4 to 6 months | **7,806** | 5,121 |
| Over 6 months | **2,615** | 3,557 |
| | **101,657** | 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.

## 19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Prepayments | **5,438** | 7,738 |
| Prepaid land lease payments | **585** | – |
| Deposits and other receivables | **14,936** | 15,201 |
| Impairment | **(1,387)** | (1,387) |
| | **19,572** | 21,552 |

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.

## 20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Equity investments at fair value through profit or loss as at 31 December 2008 and 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.

## 21. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Cash and bank balances | **260,670** | 130,199 | **128,002** | 3 |
| Short term deposits | **54,973** | 1,116 | **–** | – |
| Cash and cash equivalents | **315,643** | 131,315 | **128,002** | 3 |
| Denominated in RMB | **185,887** | 104,381 | **–** | – |
| Denominated in other currencies | **129,756** | 26,934 | **128,002** | 3 |
| Cash and cash equivalents | **315,643** | 131,315 | **128,002** | 3 |

## 21. CASH AND CASH EQUIVALENTS *(Continued)*

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 six 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.

## 22. ACCOUNTS PAYABLE

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

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **18,378** | 8,576 |
| 1 to 3 months | **21,927** | 7,073 |
| 4 to 6 months | **12,554** | 702 |
| Over 6 months | **5,758** | 1,698 |
| | **58,617** | 18,049 |

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

## 23. OTHER PAYABLES AND ACCRUALS

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Other payables | **8,163** | 8,125 |
| Accruals | **30,958** | 10,628 |
| | **39,121** | 18,753 |

## 24. 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 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 the 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 the 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 2007, there were 930,000 shares of the 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 TDF Warrant expired on 30 November 2007 and the amount of the derivative financial instruments as at 31 December 2007 representing the fair value of the embedded derivatives of the Preferred Shares was insignificant.

## 24. DERIVATIVE FINANCIAL INSTRUMENTS/CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

In May 2008, the Company underwent the Reorganisation and acquired the entire 930,000 Preferred Shares of A8 Music, and issued 930,000 series A convertible preferred shares of HK$0.01 each to the shareholders of New Media. Details of the Reorganisation were set out in note 1 to these financial statements. The entire preferred shares in the Company were conditionally converted into ordinary shares in the Company on 26 May 2008.

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.

## 24. DERIVATIVE FINANCIAL INSTRUMENTS/CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

### (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.

## 24. DERIVATIVE FINANCIAL INSTRUMENTS/CONVERTIBLE REDEEMABLE PREFERRED SHARES *(Continued)*

### (vi) Restriction *(Continued)*

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.

All of the aforesaid rights cease to exist when the conversion of the Preferred Shares into ordinary shares in the Company became unconditional upon the Listing.

## 25. DEFERRED TAX

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.

**Deferred tax liabilities**

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| At beginning and end of year | **813** | 813 |

**Deferred tax assets**

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Deductible temporary difference credited to the income statement during the year *(note 10)* and balance at end of year | **4,899** | – |

## 25. DEFERRED TAX *(Continued)*

The Group has tax losses arising in Mainland China of RMB4,871,000 (2007: RMB13,319,000) 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 it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the New Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprise established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2008, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalling approximately RMB95,013,000 at 31 December 2008 (2007: Nil).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 26. SHARE CAPITAL

### Shares

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Authorised: | | |
| 3,000,000,000 (2007: 7,700,000) ordinary shares of HK$0.01 each (2007: US$0.01 each) | **26,513** | 593 |
| Issued and fully paid: | | |
| 446,288,000 (2007: 6,450,000) ordinary shares of HK$0.01 each (2007: US$0.01 each) | **3,944** | 512 |

## 26. SHARE CAPITAL *(Continued)*

The balance of the authorised and issued share capital as at 31 December 2007 represents the authorised and issued share capital of A8 Music, the then holding company of the companies comprising the Group. The balance of the authorised and issued share capital as at 31 December 2008 represents the authorised and issued share capital of the Company after the completion of the Reorganisation as further detailed in note 1, and the following movements during the year:

(a) Pursuant to a written resolution of shareholders of the Company passed on 26 May 2008, the authorised share capital of the Company was increased from HK$380,000 to HK$30,000,000 by the creation of 2,962,000,000 additional shares of HK$0.01 each, ranking pari passu in all respects with the existing ordinary shares of the Company.

(b) On 26 May 2008, the 930,000 series A convertible preferred shares of HK$0.01 each in the Company were conditionally converted into 930,000 ordinary shares of HK$0.01 each in the Company.

(c) On 26 May 2008, the Company conditionally issued and allotted 352,620,000 ordinary shares of HK$0.01 each at par as fully paid to the shareholders whose names appeared on the register of the members of the Company on 2 June 2008 by way of capitalisation of HK$3,526,200 which was then standing to the credit of the share premium account of the Company upon the listing of shares of the Company.

(d) On the Listing Date, the Company's shares were listed on the Stock Exchange and the Company issued 80,000,000 ordinary shares of HK$0.01 each at HK$1.9 per share with gross proceeds of approximately HK$152,000,000.

(e) On the Listing Date, a total number of 528,000 ordinary shares of HK$0.01 each of the Company, credited as fully paid at par, were allotted and issued to the sponsor of the Company by way of capitalisation of HK$5,280 out of the share premium account of the Company.

(f) On 4 July 2008, the Company issued additional 5,760,000 ordinary shares of HK$0.01 each at HK$1.9 per share with gross proceeds of approximately HK$10,944,000 pursuant to the partial exercise of the over-allotment option as referred to in the prospectus of the Company dated 28 May 2008 and the announcement of the Company dated 3 July 2008.

## 26. SHARE CAPITAL *(Continued)*

A summary of the transactions with reference to the above movements in the Company's issued share capital is as follows:

| | Number of issued and fully paid ordinary shares | Nominal value of ordinary shares | Share premium | Equivalent nominal value of ordinary shares | Equivalent share premium | Total |
|---|---|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| On incorporation | – | – | – | – | – | – |
| Issue of shares in connection with the Reorganisation *(note 1)* | 6,450,000 | 65 | – | 57 | – | 57 |
| Conversion of preferred shares – *note (b)* | 930,000 | 9 | 74,924 | 8 | 66,218 | 66,226 |
| Capitalisation issue – *note (c)* | 352,620,000 | 3,526 | (3,526) | 3,116 | (3,116) | – |
| Issue of shares in connection with the Listing – *note (d)* | 80,000,000 | 800 | 151,200 | 707 | 133,628 | 134,335 |
| Remuneration shares issued – *note (e)* | 528,000 | 5 | (5) | 5 | (5) | – |
| Over-allotment of shares – *note (f)* | 5,760,000 | 58 | 10,400 | 51 | 9,191 | 9,242 |
| Deemed distribution *(note 12)* | – | – | (10,148) | – | (8,969) | (8,969) |
| | 446,288,000 | 4,463 | 222,845 | 3,944 | 196,947 | 200,891 |
| Share issue expenses | – | – | (17,408) | – | (15,385) | (15,385) |
| **As at 31 December 2008** | **446,288,000** | **4,463** | **205,437** | **3,944** | **181,562** | **185,506** |

## 27. SHARE OPTION SCHEMES

### (a) Pre-IPO share option scheme

The Pre-IPO share option scheme was adopted by the Company to recognise and reward the past contribution of the employees of the Group and individuals or entities who have in the opinion of the board of directors contributed or will contribute to the growth and development of the Group (the "Eligible Participants"). The maximum number of shares which may be issued upon exercise of all options that can be granted under the Pre-IPO share option scheme is 18,702,400 shares. On 21 May 2008, share options to subscribe 18,702,400 shares were issued to 56 Eligible Participants with a minimum vesting period of three years and a maximum exercise period of four years. The exercise price ranges from HK$0.16 to HK$0.91 per share. No further share option under the Pre-IPO share option scheme has been granted since the listing of the shares of the Company on the Listing Date and no share option under the Pre-IPO share option scheme is exercisable within the first six months from the Listing Date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Pre-IPO share option scheme during the year:

| | **2008** | |
|---|---|---|
| | **Weighted average exercise price** | **Number of options** |
| | ***HK$ per share*** | ***'000*** |
| At 1 January | **–** | **–** |
| Granted during the year | **0.77** | **18,702** |
| Forfeited during the year | **0.63** | **(332)** |
| At 31 December | **0.77** | **18,370** |

No share options were exercised during the current year.

## 27. SHARE OPTION SCHEMES *(Continued)*

### (a) Pre-IPO share option scheme *(Continued)*

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

**2008**

| Number of options '000 | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| 115 | 0.16 | 1-2-2009 to 21-5-2012 |
| 382 | 0.17 | 1-2-2009 to 21-5-2012 |
| 514 | 0.27 | 1-2-2009 to 21-5-2012 |
| 225 | 0.29 | 1-2-2009 to 21-5-2012 |
| 502 | 0.39 | 1-2-2009 to 21-5-2012 |
| 295 | 0.40 | 1-2-2009 to 21-5-2012 |
| 286 | 0.45 | 1-2-2009 to 21-5-2012 |
| 250 | 0.50 | 1-2-2009 to 21-5-2012 |
| 722 | 0.52 | 1-2-2009 to 21-5-2012 |
| 516 | 0.65 | 1-2-2009 to 21-5-2012 |
| 4,087 | 0.74 | 1-2-2009 to 21-5-2012 |
| 10,476 | 0.91 | 1-2-2009 to 21-5-2012 |
| 18,370 | | |

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was RMB20,210,000 (RMB1.1 each) of which the Group recognised a share option expense of RMB4,899,000 and a deemed distribution of RMB8,969,000 to the then sole shareholder of the Company (note 12) during the year ended 31 December 2008.

## 27. SHARE OPTION SCHEMES *(Continued)*

### (a) Pre-IPO share option scheme *(Continued)*

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | **2008** |
|---|---|
| Dividend yield *(%)* | **3** |
| Expected volatility *(%)* | **53.36-56.88** |
| Risk-free interest rate *(%)* | **1.72-2.34** |
| Expected life of options *(year)* | **2-3.56** |
| Weighted average share price *(HK$)* | **2.02** |

The expected life of the options is based on management expectation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility, which is based on the volatility computed from comparable companies, reflects the assumption that the volatility of comparable companies is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of options granted was incorporated into the measurement of fair value.

### (b) 2008 share option scheme

The Company operates a 2008 share option scheme for the purpose of motivating eligible persons to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or reward them for their past contributions. The 2008 share option scheme became effective on 26 May 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all options that can be granted under the 2008 share option scheme and any other schemes of the Group (including the Pre-IPO share option scheme) shall not in aggregate exceed 10% of the shares of the Company in issue when the 2008 share option scheme was approved, i.e., 44,052,800 shares.

## 27. SHARE OPTION SCHEMES *(Continued)*

### (b) 2008 share option scheme *(Continued)*

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2008 share option scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time.

The maximum number of shares issuable under share options to each eligible participant in the 2008 share option scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## 27. SHARE OPTION SCHEMES *(Continued)*

### (b) 2008 share option scheme *(Continued)*

The following share options were outstanding under the 2008 share option scheme during the year:

| | 2008 Weighted average exercise price *HK$ per share* | Number of options *'000* |
|---|---|---|
| At 1 January | – | – |
| Granted during the year | 1.18 | 4,513 |
| At 31 December | 1.18 | 4,513 |

No share options were exercised during the current year.

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

**2008**

| Number of options *'000* | Exercise price* *HK$ per share* | Exercise period |
|---|---|---|
| 4,405 | 1.184 | 15-10-2009 to 14-10-2018 |
| 108 | 1.160 | 16-10-2009 to 15-10-2018 |
| 4,513 | | |

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was RMB1,277,000 (RMB0.28 each) of which the Group recognised a share option expense of RMB166,000 during the year ended 31 December 2008.

## 27. SHARE OPTION SCHEMES *(Continued)*

### (b) 2008 share option scheme *(Continued)*

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | **2008** |
|---|---|
| Dividend yield *(%)* | **2** |
| Expected volatility *(%)* | **55.20-65.52** |
| Risk-free interest rate *(%)* | **0.92-2.30** |
| Expected life of options *(year)* | **1-4** |
| Weighted average share price *(HK$)* | **1.05-1.08** |

The expected life of the options is based on the management expectation and is not necessarily indicative of the exercise patterns that may occur. The expected volatility, which is based on the volatility computed from comparable companies, reflects the assumption that the volatility of comparable companies is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of options granted was incorporated into the measurement of fair value.

### (c) Join Reach share option scheme

The Join Reach share option scheme adopted by Join Reach Limited ("Join Reach") was set up by the shareholders of Prime Century, which is one of the substantial shareholders of the Company, to recognise and reward the contribution of certain employees of the Company and its subsidiaries who, in the opinion of the board of directors of Join Reach, have contributed or will contribute to the growth and development of the business invested by Prime Century. The Join Reach share option scheme became effective on 26 May 2008 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in Prime Century which may be transferred by Join Reach to the grantees upon the exercise of all options to be granted under the Join Reach share option scheme represent approximately 8.8% of the total issued share capital of Prime Century.

## 27. SHARE OPTION SCHEMES *(Continued)*

### (c) Join Reach share option scheme *(Continued)*

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of Join Reach, and commences after a certain vesting period and ends on a date which is not later than four years from the date of offer of the share options or the expiry date of the Join Reach share option scheme, if earlier.

The following share options granted to the employees of the Company and its subsidiaries were outstanding under the Join Reach share option scheme during the year:

| | 2008 | |
|---|---|---|
| | **Weighted average exercise price** *HK$ per share* | **Number of options** *'000* |
| At 1 January | – | – |
| Granted during the year | **0.75** | **5,332** |
| At 31 December | **0.75** | **5,332** |

No share options were exercised during the current year.

The exercise prices and exercise periods of the share options granted to the employees of the Company and its subsidiaries outstanding as at that balance sheet date are as follows:

**2008**

| **Number of options** *'000* | **Exercise price*** *HK$ per share* | **Exercise period** |
|---|---|---|
| **94** | **0.16** | **1-2-2009 to 4-8-2012** |
| **1,746** | **0.45** | **1-2-2009 to 4-8-2012** |
| **3,492** | **0.91** | **1-2-2009 to 4-8-2012** |
| **5,332** | | |

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

## 27. SHARE OPTION SCHEMES *(Continued)*

### (c) Join Reach share option scheme *(Continued)*

The fair value of the share options granted to the employees at the Company and its subsidiaries during the year was RMB3,816,000 (RMB0.72 each) of which the Group recognised a share option expense of RMB1,283,000 during the year ended 31 December 2008.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes-Merton Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | **2008** |
|---|---|
| Dividend yield *(%)* | **2** |
| Expected volatility *(%)* | **52.99-63.13** |
| Risk-free interest rate *(%)* | **1.30-2.84** |
| Expected life of options *(year)* | **0.49-3.36** |
| Weighted average share price *(HK$)* | **1.41** |

The expected life of the options is based on management expectations and is not necessarily indicative of the exercise patterns that may occur. The expected volatility, which is based on the volatility computed from comparable companies, reflects the assumption that the volatility of comparable companies is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of options granted was incorporated into the measurement of fair value.

In addition to the share options granted under the Join Reach share option scheme, during the year, a director of the Company was awarded 0.631 share in Prime Century in respect of his services to the Group. The fair value of the share was RMB741,000 which was recognised as an expense by the Group during the year.

## 27. SHARE OPTION SCHEMES *(Continued)*

### (d) Share option deed of Prime Century and Ever Novel

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 percentage of equity interest in Prime Century, are as follows:

| | **Percentage of equity interest in Prime Century** |
|---|---|
| At 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.

## 27. SHARE OPTION SCHEMES *(Continued)*

### (d) Share option deed of Prime Century and Ever Novel *(Continued)*

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 prior years.

At the balance sheet date, the Company had 22,883,000 share options outstanding under the Pre-IPO share option scheme and the 2008 share option scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 22,883,000 additional ordinary shares of the Company and additional share capital of HK$229,000 and share premium of HK$19,236,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 18,115,230 share options outstanding under the Pre-IPO share option scheme and the 2008 share option scheme, which represented approximately 4.1% of the Company's shares in issue as at that date.

## 28. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 52 of the financial statements.

*(i) Merger reserve*

Merger reserve of the Group represents (i) 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; and (ii) the difference between the nominal value of the shares of the Company issued over the nominal value of A8 Music's shares acquired pursuant to the Reorganisation.

## 28. RESERVES *(Continued)*

### (a) Group *(Continued)*

*(ii) Surplus contributions*

According to an agreement dated 27 December 2004 on the capital contribution into A8 Music's signed by A8 Music, the then 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 of 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.

*(iii) PRC statutory reserves*

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 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.

## 28. RESERVES (Continued)

### (b) Company

| | Share premium account RMB'000 | Capital reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Employee share-based compensation reserve RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| At 2 October 2007 (date of incorporation) | – | – | – | – | – | – |
| Loss for the period | – | – | – | – | (2) | (2) |
| At 31 December 2007 | – | – | – | – | (2) | (2) |
| Exchange realignment | – | – | (124) | – | – | (124) |
| Conversion of preferred shares | 66,218 | – | – | – | – | 66,218 |
| Capitalisation issue of shares | (3,116) | – | – | – | – | (3,116) |
| Issue of shares in connection with listing | 133,628 | – | – | – | – | 133,628 |
| Remuneration shares issued | (5) | – | – | – | – | (5) |
| Over-allotment of shares | 9,191 | – | – | – | – | 9,191 |
| Share issue expenses | (15,385) | – | – | – | – | (15,385) |
| Deemed distribution *(note 12)* | (8,969) | 8,969 | – | – | – | – |
| Profit for the year | – | – | – | – | 2,580 | 2,580 |
| Equity-settled share option arrangement | – | – | – | 5,065 | – | 5,065 |
| **At 31 December 2008** | **181,562*** | **8,969*** | **(124)** | **5,065** | **2,578*** | **198,050** |

* These reserve accounts comprise the Company's reserves available for distribution amounting to RMB193,109,000.

## 29. DISPOSAL OF SUBSIDIARIES

On 25 June 2007, the Group disposed of its entire interest in a wholly-owned subsidiary, Beijing Wangle Tianxia Internet Information Services Co., Ltd., ("Wangle Tianxia") to one employee and one ex-employee of the Group for a total consideration of RMB1,000,000 (note 33(b)(iii)).

On 20 December 2007, the Group disposed of its entire interest in a wholly-owned subsidiary, Beijing Zhongge Feiyang Culture Broadcasting Co., Ltd. ("Zhongge Feiyang"), to an employee of a company wholly-owned by Mr. Liu (the "Acquirer") for a total consideration of RMB17,200,000 (note 33(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 | *14* | 282 |
| Interest 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 | | 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) |

## 30. CONTINGENT LIABILITIES

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

## 31. 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 the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases in respect of buildings as follows:

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Within one year | **2,687** | 3,216 |
| In the second to fifth years, inclusive | **720** | 2,020 |
| | **3,407** | 5,236 |

## 32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group had the following commitments as at the balance sheet date:

| | **Group** | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Authorised, but not contracted for: | | |
| Land and buildings | **120,000** | – |

At the balance sheet date, the Company did not have any significant commitments.

## 33. RELATED PARTY TRANSACTIONS

**(a)** During the current year, the Group had no significant related party transactions.

**(b) Amounts due from related parties**

The amounts due from related parties have been settled before the Listing Date.

| | 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 2007 | | | | | |
| Registered Owners *(note (i))*: | | | | | |
| 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 (iv))* | 201 | 356 | (557) | – | 557 |
| Due from Wangle Tianxia *(note (v))* | – | 12,112 | – | 12,112 | 12,112 |
| | 22,911 | 39,158 | (2,361) | 59,708 | |
| **31 December 2008** *(note vi)* | | | | | |
| Registered Owners *(note (i))*: | | | | | |
| Mr. Liu *(note (ii))* | **47,445** | **–** | **(47,445)** | **–** | **47,445** |
| Ms. Cui | **151** | **–** | **(151)** | **–** | **151** |
| Due from Wangle Tianxia | **12,112** | **–** | **(12,112)** | **–** | **12,112** |
| | **59,708** | **–** | **(59,708)** | **–** | |

*Notes:*

(i) During the year ended 31 December 2007, 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.

## 33. RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Amounts due from related parties *(Continued)*

*Notes: (Continued)*

(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 office 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 2007, the Operating Company paid expenses on behalf of the Related Company for the Music Database Business of RMB6,365,000. In addition, management fees of RMB0.9 million were charged for the year ended 31 December 2007.

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 had 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) 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 1 January 2007 was unsecured, interest-free and fully repaid during the year ended 31 December 2007.

(v) Wangle Tianxia was a then subsidiary being disposed of by the Group on 25 June 2007 to one employee and one ex-employee of the Group (note 29). 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.

(vi) 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 settled in February 2008.

## 33. RELATED PARTY TRANSACTIONS *(Continued)*

### (c) Amount due to a related party

The balance as at 31 December 2007 represented RMB3,558,000 payable to Zhongge Feiyang, a then subsidiary being disposed of by the Group on 20 December 2007 (note 29). The amount was unsecured, interest-free and had been settled during the year ended 31 December 2008.

### (d) Compensation of key management personnel of the Group

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Short term employee benefits | **5,989** | 4,255 |
| Post-employment benefits | **73** | 123 |
| Equity-settled share option expenses | **2,581** | – |
| Total compensation paid to key management personnel | **8,643** | 4,378 |

## 34. FINANCIAL INSTRUMENTS BY CATEGORY

Other than certain investments being classified as equity investments at fair value through profit or loss as disclosed in note 20 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2007 and 2008, are loans and receivables, and financial liabilities stated at amortised cost, respectively.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Financial risk factors

The Group's principal financial instruments comprise cash and cash equivalents. 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.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews 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.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

**Financial risk factors** *(Continued)*

*(a) 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 3.3 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 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.

*(b) Liquidity risk*

Except for the convertible redeemable preferred shares which have been fully converted during the year, 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.

### 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 and convertible redeemable preferred shares.

The equity investments at fair value through profit or loss 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 at 31 December 2007 had no significant difference compared to its fair value.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

### 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 and convertible redeemable preferred shares. The amounts of the net cash over debt position at 31 December 2007 and 2008 were as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Cash and cash equivalents | **315,643** | 131,315 |
| Accounts payable | **(58,617)** | (18,049) |
| Other payables and accruals | **(39,121)** | (18,753) |
| Amount due to a related party | **–** | (3,558) |
| Convertible redeemable preferred shares | **–** | (68,510) |
| Net cash over debt position | **217,905** | 22,445 |

## 36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue of by the board of directors on 25 March 2009.

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