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

Annual Report
2009 年報

Contents

我的音乐无处不在!
My Music Everywhere!

CORPORATE INFORMATION

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. Zeng Liqing

AUDIT COMMITTEE
Mr. Chan Yiu Kwong *(Chairman)*
Mr. Hui, Harry Chi
Mr. Zeng Liqing

REMUNERATION COMMITTEE
Mr. Liu Xiaosong *(Chairman)*
Mr. Hui, Harry Chi
Mr. Zeng Liqing

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
Stephenson Harwood

AUDITORS
Ernst & Young

COMPLIANCE ADVISOR
Guangdong Securities Limited

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
35th floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

WEBSITE
www.a8.com

STOCK CODE
00800

FINANCIAL SUMMARY AND HIGHLIGHTS

CONSOLIDATED RESULTS

	Year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**707,148**	706,079	285,964	268,438	233,233
Profit before tax	**118,592**	94,968	60,485	44,602	41,971
Income tax expense	**(16,423)**	(14,168)	(5,248)	(5,314)	(974)
Profit for the year	**102,169**	80,800	55,237	39,288	40,997
Attributable to:					
Owners of the Company	**102,008**	80,170	55,274	39,863	41,842
Minority interests	**161**	630	(37)	(575)	(845)
	102,169	80,800	55,237	39,288	40,997

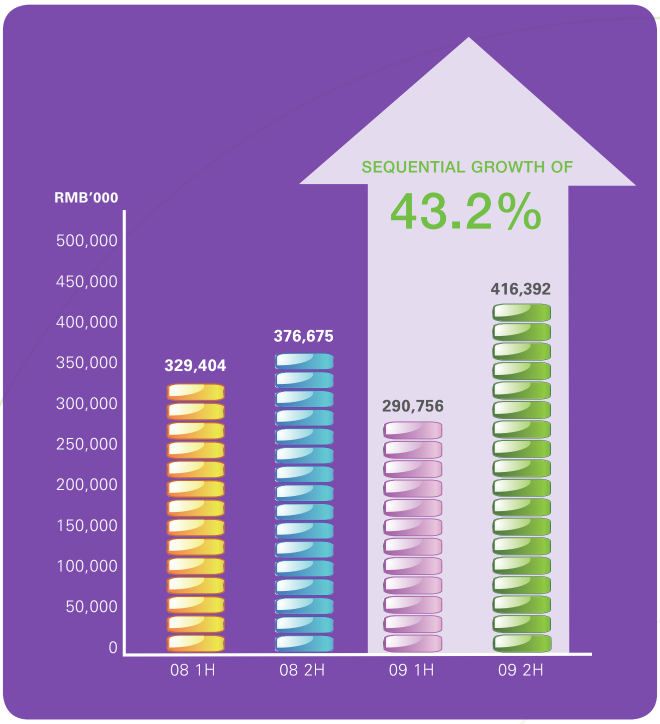
CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As of 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**602,121**	479,334	291,187	230,460	177,981
Total liabilities	**(119,343)**	(113,548)	(109,683)	(106,789)	(93,409)
Minority interests	**(811)**	(650)	(20)	(57)	(821)
	481,967	365,136	181,484	123,614	83,751

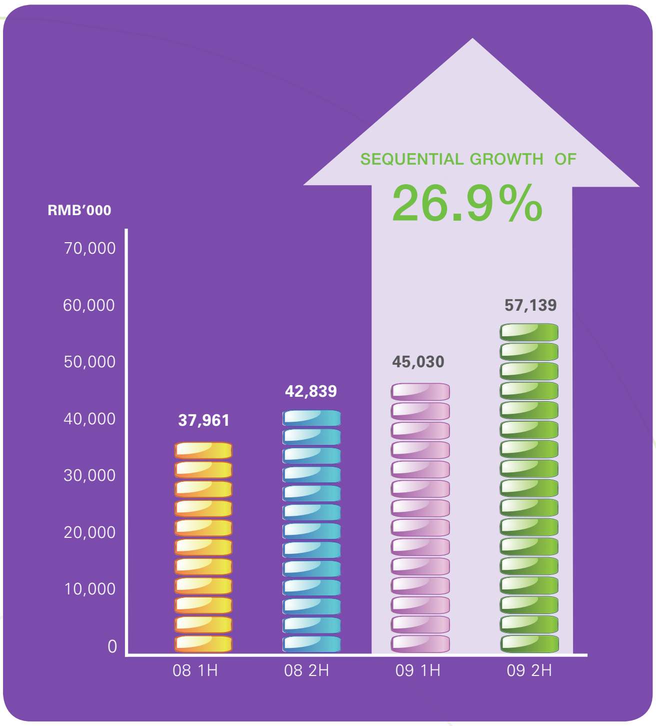
The consolidated results of A8 Digital Music Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2009 and the consolidated assets, liabilities and equity of the Group as at 31 December 2009 are those set out in the audited financial statements.

FINANCIAL SUMMARY AND HIGHLIGHTS

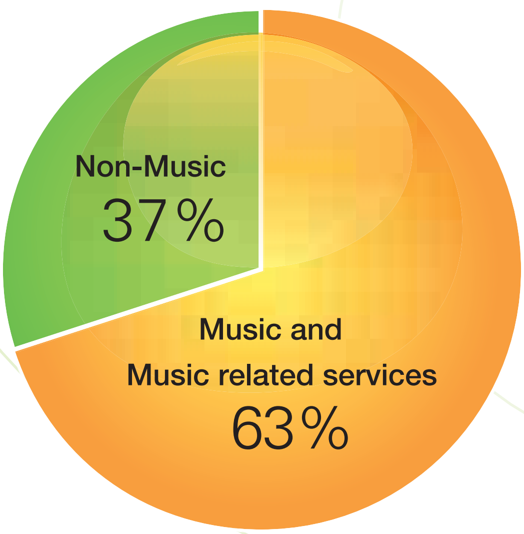
REVENUE



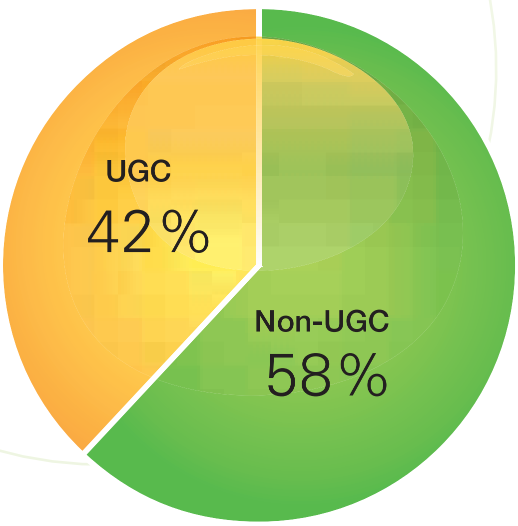
NET PROFIT



MUSIC AND MUSIC RELATED SERVICES



USER GENERATED CONTENT ("UGC")



CHAIRMAN'S STATEMENT

Liu Xiaosong
Chairman

Dear Shareholders:

As mentioned in our interim report, 2009 had been an investment year for us, we have built more content and created additional distribution channels to deliver our music services. We have diligently re-defined our mid to long term strategy. We believe that we have now poised a very solid and foreseeable foundation for our future development, hence, looking forward to a continuous and consistent growth for the Group.

OPERATIONS IN 2009

I'm pleased to report that A8 Music has recorded a strong sequential growth of 43.2% on revenue in the second half as compared with the first half in 2009, an increase of 10.5% over the second half of 2008. Revenue in second half of 2009 recorded approximately RMB416.4 million which is almost 1.5 times of that in the first half of 2009 (2009 1H: approximately RMB290.8 million). We are very encouraged with this result. Whereas full year 2009 revenue recorded a slight increase, but a consistent strong growth in our net profits. This was due to the fact that the industry has recorded a stagnant growth in 2009, however, on the other hand we have tightened our expenses and improved our margins, hence, increased our net profit as compared to 2008.

CHAIRMAN'S STATEMENT

Based on China Mobile's 2009 annual results announcement, the revenue of ringback tone increased at a decreasing rate. It reached RMB15.4 billion, representing an increase of approximately 7.4% over RMB14.3 billion in 2009. This represents a significant drop from 22% growth in 2008. In addition, as of 31 December 2009, China Mobile disclosed that it already has 406 million wireless music subscribers, which represented a penetration rate of around 78%.

On content strategy, we have successfully extended our User Generated Content ("UGC"). During the year ended 31 December 2009, we have signed up with one of the largest Tai Wan Music Label – HIM for a two year exclusive contract. This added the famous S.H.E and Fahrenheit, etc. to our portfolio. The Fourth Original Music Award Ceremony was debuted in Beijing on 28 December 2009, attracted over 1,000 participants and contributed around 10,000 UGC songs, including the Hong Kong division for the first time. Three of our UGC songs, "Cheng Fu", "Ren Cuo", "Zhan Chi Tian Kong" recorded very satisfactory results. All of these three songs stayed on Baidu's Top 50 Billboards. "Cheng Fu" had outstanding achievement: it ranked top 10 on both China Mobile Wireless and Baidu's Billboards. In 2009, the total revenue from UGC amounted to approximately RMB189.0 million, with top 5 songs, recorded over 45 million downloads. Meanwhile, we worked with Shenzhen Media Group as the co-organizer of the Pop Music Contest of the China Golden Bell Award and as the exclusive digital music platform to increase A8's brand and obtained exclusive content.

I would like to announce one of the significant developments with the worldwide renowned "*Nokia*". In November 2009, A8 Box was chosen, among all other applications, to be the sole music solution in Nokia's OVI Store in China.

A8 Box achieved significant advancement with selected top handset brands in China. Starting from October 2009, all "*Gionee*" Music Phones will be pre-installed with A8 Box. A8 will provide music related service to *Samsung* mobile users through Samsung Fun Club from second half of 2009.

All these developments and the strong growth in the fourth quarter 2009 provided a solid foundation for A8 Music to achieve a consistent growth in 2010 and onward.

FINANCIAL RESULTS IN 2009

For the year ended 31 December 2009, the total revenue of the Group is approximately RMB707.1 million, representing a slight increase as compared with 2008. The profit attributable to the shareholders of the year amounted to approximately RMB102.0 million, representing an increase of 27% as compared with 2008. For the year ended 31 December 2009, the basic and diluted earnings per share were approximately RMB0.23 and RMB0.22 respectively.

As at 31 December 2009, the Group had total current assets of approximately RMB552.3 million with a cash and bank balances and highly liquid short term assets of approximately RMB402.0 million and net assets of approximately RMB482.8 million. The Group has no debt as at 31 December 2009.

CORPORATE SOCIAL RESPONSIBILITY

A8 Music has been very enthusiastic on creating a green, healthy and orderly environment for the Mobile Internet. In 2009, A8 Music joined the "China Green Mobile Phone Culture Alliance (中國綠色手機文化聯盟)". As an important member of the Alliance, we proactively promoted and participated in the "Signing Ceremony and Forum for Joint Advocacy on Building Green Mobile Internet Together (共建綠色移動互聯網聯合倡議簽名儀式暨論壇)", and strive to provide healthy contents and excellent services to all mobile internet users in China.

In addition, in view of the low employment rate of university graduates, we held on-campus recruitment in universities in Sichuan, Shanxi, Hunan and Hubei in 2008 and among them, we recruited around 40 graduates in 2009 to support the rapid development of our business.

CHAIRMAN'S STATEMENT

BUSINESS OUTLOOK

The deployment of 3G has greatly facilitated the growth of mobile internet. Based on the 25th China Internet development status report published by CNNIC in January 2010, the number of mobile internet subscribers in the PRC has reached approximately 230 million. In addition, based on iResearch China Digital Music Report 2009-2010, the growth of mobile internet will be from 34-48% annually and reached RMB14.8 billion in 2012. It further stated that by riding on this exponential growth and the deployment of 3G, wireless music will be one of the most sought after applications on the mobile internet. Wireless music is forecasted to grow at a double digit rate to reach RMB39.3 billion in 2011. This indicates an enormous growth opportunity. The recent announcement of China to accelerate Triple Play – the plan to merge the telecommunications network, TV and radio network and the Internet in the near future would indeed boost the development of the information and culture, where music represents a great component in this context. All these have created a very favorable macroeconomic environment for the Group.

During 2009, we have consolidated all the music and related business into one single business name as "Music Cloud". The mission of the Music Cloud is to provide music services everywhere across different devices. It is based on cloud computing technology to store all the music and users' preference in a centralized database. Music Cloud is a long term strategy of the Group, it aims to provide a centralized virtual space for users to store their music and can be retrieved or listened to through any devices, anywhere, and anytime.

Music Cloud will not only provide basic streaming/download/search functions but also will provide advanced services like smart radio, Hi-fi (high fidelity) music downloads, multi devices usage and music community, etc. Music Cloud will be able to reach consumers directly, so as to achieve the Group's strategic objectives of providing services to end-users, owning desktops and end users.

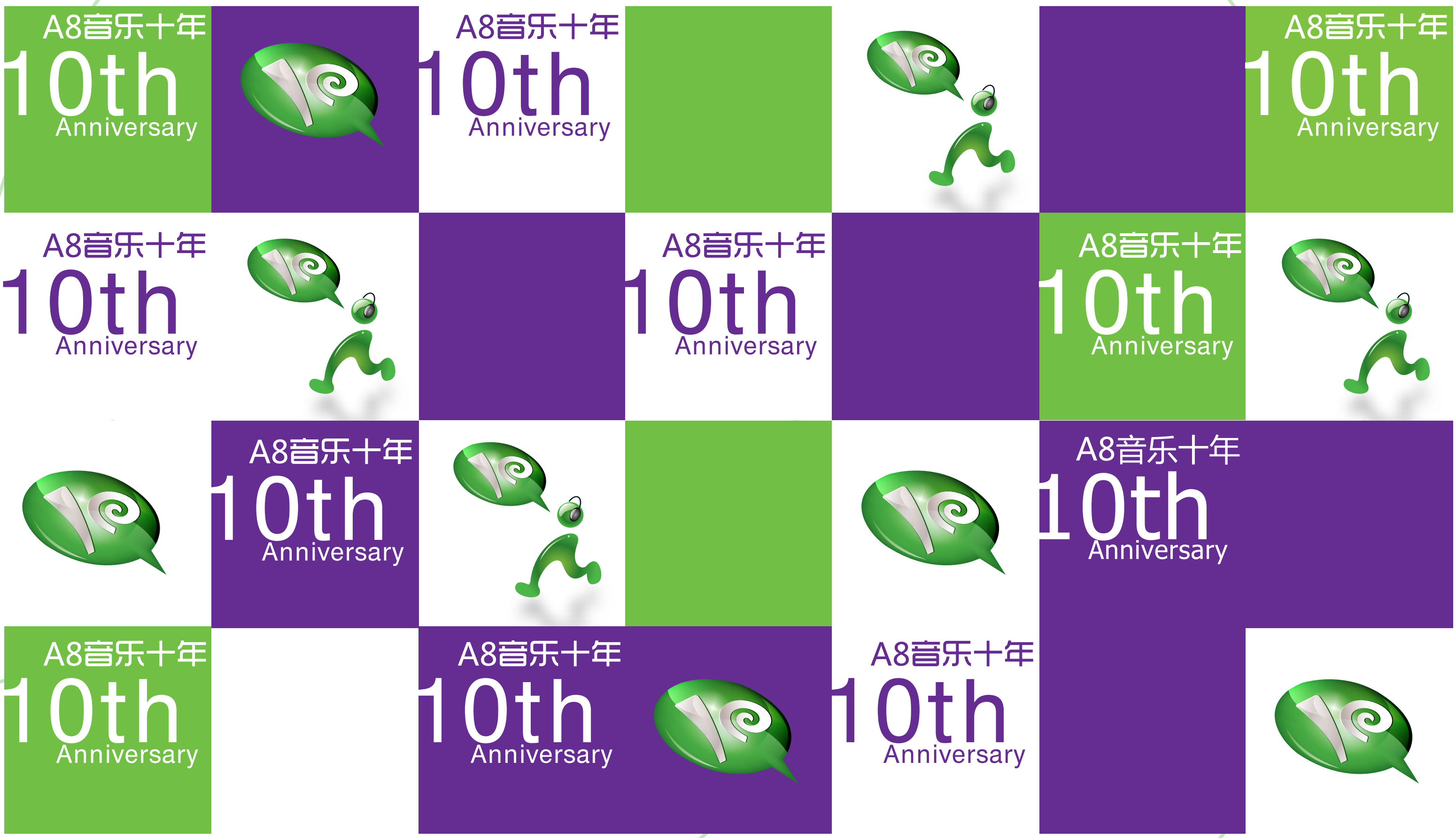
In short to medium term and in order to continuously increase market share on mobile internet, A8 Box will extend its reach to becoming a "platform" to provide users an integrated entertainment services focusing on music but also providing interactive entertainments, information, wallpapers/pictures, and news/weather, etc.

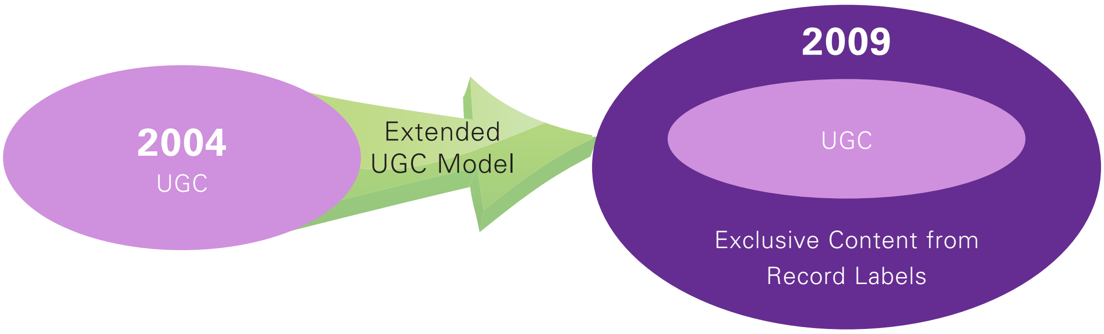
It is now very clear that our long term strategy is a B2C model to own user directly. Meanwhile, building on our existing strong sales channels, we will be offering diversified products but focus on music and music related services. We believe these strategies provide a very solid foundation for our future growth and ensure the Group to achieve a higher than average industry growth rate.

By May 2010, A8 will celebrate its 10th year anniversary. I would like to sincerely thank all of our employees for their hard and dedicated work in the past 10 years, all of our investors and shareholders to continuously support our company. We are striving to extract the best value of the Group in the next 10 years and becoming the biggest digital music services provider in China.

Liu Xiaosong
Chairman

Hong Kong
24 March 2010


A8音乐十年
10th
Anniversary



金牌大風


Ms. Zhou Bichang (周筆暢)


S.H.E.

HIM
華研國際


Tsai Tanya (蔡健雅)

第四届A8原创中国音乐大赛


Fahrenheit (飛輪海)

Business Review

Revenue and profit attributable to owners of the Company

For the second half of 2009, the revenue of the Group amounted to approximately RMB416.4 million, representing significant increase of 43.2% and 10.5% as compared with the first half in 2009 and the same period in 2008 respectively.

For the year ended 31 December 2009, the revenue of the Group amounted to approximately RMB707.1 million, representing a slight increase as compared with 2008 (2008: approximately RMB706.1 million).

An exclusive one-off event was held with one of the mobile operators in 2008. It attributed approximately RMB48.6 million gross revenue and approximately RMB9.3 million net profit for the year ended 31 December 2008. Excluding the impact of this one-off event, the revenue of the Group represented an increase of approximately 8% as compared with 2008, which is in line with the industry's growth.

For the year ended 31 December 2009, the profit attributable to owners of the Company amounted to approximately RMB102.0 million, representing an increase of approximately 27.2% as compared with 2008 (2008: approximately RMB80.2 million).

Cost of services provided

For the year ended 31 December 2009, cost of services provided by the Group amounted to approximately RMB425.7 million, maintaining about the same level as compared with 2008 (2008: approximately RMB425.8 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.

Revenue share with mobile operators was charged from 15% to 50% of the total revenue received from mobile users and it averaged approximately 27.6% of the total revenue for the year ended 31 December 2009 (2008: approximately 27.7%).

Revenue share with business alliances slightly increased to approximately 29.7% of the total revenue for the year ended 31 December 2009 (2008: approximately 29.1%).

Gross profit

For the year ended 31 December 2009, the gross profit of the Group amounted to approximately RMB270.1 million, representing an increase of approximately 2% as compared with 2008 (2008: approximately RMB266.1 million). The overall gross profit margin of the Group increased from approximately 37.7% to 38.2%.

Combining the selling and marketing expenses and the cost of services provided, the adjusted total cost of sales for the year ended 31 December 2009 was approximately RMB538.6 million (2008: approximately RMB541.1 million). It represented a gross profit including selling and marketing expenses of approximately RMB157.3 million (2008: approximately RMB150.8 million). The gross profit margin including selling and marketing expenses increased to approximately 22% for the year ended 31 December 2009 (2008: approximately 21%).

Other income and gains

For the year ended 31 December 2009, the other income and gains of the Group were approximately RMB11.5 million, representing an increase of approximately 51% as compared with 2008 (2008: net gain of approximately RMB7.6 million).

The increase was mainly due to the increase of interest income amounted to approximately RMB2.5 million and gain on disposal of investment at fair value through profit or loss amounted to approximately RMB1.4 million in 2009.

Selling and marketing expenses

For the year ended 31 December 2009, the selling and marketing expenses of the Group amounted to approximately RMB112.9 million, maintaining at about the same level as compared with 2008, at 16.0% of total revenue (2008: approximately RMB115.3 million, representing 16.3% of total revenue).

Included in selling and marketing expenses were sales related headcounts which increased by around 11%, we have recruited the team gradually towards the end of the year in order to prepare for the expansion of our business. While other selling and marketing expenses were cut down by 7% as compared with 2008.

Administrative expenses

For the year ended 31 December 2009, the administrative expenses of the Group amounted to approximately RMB50.1 million, representing an increase of approximately 13.3% as compared with 2008 (2008: approximately RMB44.2 million).

The increase was mainly due to the increase in back office headcounts and rental expenses, amounted to approximately RMB3.6 million and RMB1.0 million respectively.

Other expenses

For the year ended 31 December 2009, the other expenses of the Group amounted to approximately RMB87,000 (2008: approximately RMB17.3 million).

The decrease was mainly due to the one-off listing expenses which amounted to approximately RMB10.2 million in 2008.

Finance costs

For the year ended 31 December 2009, there was no finance costs (2008: approximately RMB2.0 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 12 June 2008.

Income tax

The effective tax rate of the Group has been reduced to approximately 13.8% in 2009 (2008: approximately 14.9%). For the year ended 31 December 2009, the income tax expenses of the Group amounted to approximately RMB16.4 million (2008: approximately RMB14.2 million). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 15%, 20%, 25% for the respective operating subsidiaries of the Group for 2009 (2008: 9%, 15%, 18% and 25% 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.

The decrease in the effective tax rate was mainly due to the fact that Beijing Aiyue Cultural Broadcasting Co., Ltd. ("Aiyue") and Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd ("Yuesheng Feiyang"), which are subsidiaries of the Company, have been recognised as high technology enterprises in 2009. According to the New Corporate Income Tax Law and its Implementation Rules, high technology enterprises are entitled to the preferential tax rate of 15%, which is lower than the normal statutory tax rate in 2009. It was also due to the one-off tax exemption of Aiyue and Yuesheng Feiyang in the prior year which amounted to approximately RMB1.1 million.

Liquidity and Financial Resources

As at 31 December 2009, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, time deposits with original maturity of more than three months and investments at fair value through profit or loss amounted to approximately RMB402.0 million (2008: approximately RMB317.6 million). Approximately RMB236.3 million, or approximately 70.8% of the Group's cash and cash equivalents, were denominated in RMB.

As at 31 December 2009, the Group did not have any borrowing or debts. Accordingly, the gearing ratio which is measured by the net borrowings over the total equity is not applicable.

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

As at 31 December 2009, 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 2009, the total current assets of the Group amounted to approximately RMB552.3 million (2008: approximately RMB438.8 million). The increase was mainly due to the increase of cash which mainly generated from operating activities and it amounted to approximately RMB83.6 million and the increase of accounts receivable which amounted to approximately RMB20.3 million, the turnover days of accounts receivable increased from 52 days in 2008 to 57 days in 2009.

As at 31 December 2009, the total current liabilities of the Group amounted to approximately RMB116.7 million (2008: approximately RMB112.7 million). The increase was mainly due to the increase of the unsettled promotion expenses of approximately RMB1.7 million and the increase of the accrual bonus and salaries which amounted to approximately RMB2.6 million.

Cash Flow

Net cash inflow from operating activities of the Group for the year ended 31 December 2009 was approximately RMB83.6 million, resulted from cash generated from operations of approximately RMB88.6 million and tax paid of approximately RMB5.0 million.

Net cash outflow from investing activities of the Group for the year ended 31 December 2009 was approximately RMB73.6 million, resulted from cash outflow of purchasing of investments at fair value through profit or loss and short term deposits amounted to approximately RMB88.0 million and RMB23.0 million respectively, and partly offset by the cash inflow of proceeds from sale of investments at fair value through profit or loss amounted to approximately RMB47.5 million.

Net cash inflow from financing activities of the Group for the year ended 31 December 2009 was approximately RMB8.4 million which was due to the exercise of share options.

Contingent Liabilities

As at 31 December 2009, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2009, the Group employed 433 employees (2008: 333 employees). The Group determines the remuneration of its employees based on various factors such as responsibility, qualifications and years of experience. Total employee costs for the year ended 31 December 2009, including directors' emoluments, amounted to approximately RMB49.8 million, representing an increase of approximately 14% as compared with 2008. (2008: approximately RMB43.6 million).

Significant Event

As at 31 December 2009, the Group had no significant event.

Use of proceeds

The application of the proceeds from the initial public offering does not materially change from the possible allocation outlined in the prospectus of the Company (the "Prospectus") dated 12 June 2008 (the "Listing Date").


A8音乐
com
白石路
科園路
學府路
濱海大道
后海濱路
科苑南路
凱賓斯基酒店
海岸城
保利劇院

AWARDS 2009

The Excellent Growing Enterprise of Cellphone Client in China Mobile Internet

Awarded by *Iimedia Marketing Consultation Group & China International Mobile Internet Forum* in December 2009

2008-2009 Top 50 of China Newly-listed Companies

Awarded by *China finance magazine The Founder and H&J Consulting Group* in October 2009

Best Integrated Mobile Client Software – A8box

Awarded by *Communications Weekly, China Telecommunications Corporation, China Mobile Communications Corporation and China United Network Communications Group Co., Ltd* in September 2009

The Excellence in Achievement of World Chinese Youth Entrepreneurs – Mr. Liu Xiaosong

Awarded by *Yazhou Zhoukan and the World Federation of Chinese Entrepreneurs Organisation* in October 2009

Top 100 Influential People in Cell Phone Industry – Mr. Liu Xiaosong

Awarded by *Mobile China Media* in March 2009

Gold Winner of The Asset Corporate Award 2009

Awarded by *the international finance magazine The Asset* in December 2009

2009 Deloitte Technology Fast 500 Asia Pacific

Awarded by *Deloitte* in December 2009

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Liu Xiaosong, aged 44, is the Chairman, Chief Executive Officer and an Executive Director 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 diversified experience in the technology, media and telecommunications industry. He was one of the founders of Tencent Holdings Limited ("Tencent"), a company listed on the Main Board of The Stock Exchange (Stock code: 700). 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 of the Company on 2 October 2007. Mr. Liu is currently responsible for the overall management and strategic planning of the Group.

Mr. Liu is the director of A8 Music Group Limited, Total Plus Limited, Cash River information Technology (Shenzhen) Co., Ltd. ("Cash River"), Shenzhen Huadong Feitian Network Development Co., Ltd. ("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 41, is the Chief Financial Officer and an Executive Director of the Company since 2007.

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 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.

Mr. Lin Yizhong, aged 36, is the President and an Executive Director of the Company.

Mr. Lin graduated from Tsinghua University in the PRC in 1995, with a Bachelor's degree in Materials, Science and Engineering. Mr. Lin has diversified 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 of the Company on 9 November 2007. Mr. Lin is currently responsible for the business operation, sales and marketing of the Group.

Non-executive Director

Mr. Li Wei, aged 46, is a non-executive Director of the Company. 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 45, is an independent non-executive Director of the Company. 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 joint 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 21 years of experience in auditing, business advisory and corporate management. He was appointed as an independent non-executive Director of the Company on 9 November 2007.

Mr. Hui, Harry Chi, aged 46, is an independent non-executive Director of the Company. Mr. Hui obtained a Master of Business Administration degree in 1992 from the University of Southern California. Mr. Hui has over 13 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 of the Company on 9 November 2007.

Mr. Zeng Liqing, aged 40, is an independent non-executive Director of the Company. Mr. Zeng graduated from Xi'an University of Electronic Science and Technology in 1993 with a bachelor's degree in Computer Communication. He has over 16 years of working experience and has good knowledge of the Internet and Telecom Industry in China. He was one of the five founders of Tencent. He acted as the Chief Operating Officer and was responsible for overseeing the business operation of Tencent from 1999 to 2007, and is an honorary life advisor of Tencent. From May 2007, Mr. Zeng expanded into the investment field and founded Shenzhen Dexun Investment Limited (深圳市德迅投資有限公司) and acts as the Chairman. He was appointed as an independent non-executive Director of the Company on 23 October 2009.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT OF THE GROUP

Mr. Shi Jianping, Jimmy, aged 44, is the Chief Technology Officer of the Company, graduated from the University of Texas at Austin with a B.S. and M.S. in Computer Science in 1992. Mr. Shi held various senior management and development positions at Oracle (USA), Hewlett-Packard(U.S.A), International Software Systems, and others. With 15 years experience in leadership and R&D of commercial software in world-class software companies and over the past five years focusing on R&D of the fixed – mobile triple play services and information publishing platform for telecommunications operators, he is extremely acquainted to relevant software technology, business model and market of Internet and mobile applications. Mr. Shi has made extensive research in development model of digital music in overseas, and possesses innovative idea on how to utilize P2P, wireless, Internet and other technologies to promote digital music.

Ms. Li Lian, aged 48, is the Vice President of the Company, one of the A8 Music "Angel Investors" and has worked in several enterprises and culture companies in China, US and Hong Kong. Ms. Li has served as Group Executive Director of Confi Industrial Holdings Co.,(HK) and the President of Oasis Worldwide Inc.(US) etc. Mr. Li has more than 20 years of cultural consulting and corporate management experience. She joined the Group in December 2008 and primarily responsible for the Group of digital music- cultural development.

Mr. Wang Hua, aged 33, is the Vice President of the Company, 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 responsible for the general operation of the sales services of the Group.

DIRECTORS' REPORT

The board (the "Board") of directors (the "Directors") presents their report and the audited financial statements of the Group for the year ended 31 December 2009.

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 2009 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.

The Board has recommended payment of a final dividend of HK$0.05 per share for the year ended 31 December 2009 to shareholders out of the Company's share premium account. The proposed dividend payment is subject to the approval of shareholders of the Company at the forthcoming annual general meeting. The final dividend will be paid on or before 31 May 2010 to shareholders whose name appear on the register of members of the Company on 20 May 2010.

FINANCIAL SUMMARY AND HIGHLIGHT

A summary of the published results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and the Prospectus, is set out on page 4. 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 ended 31 December 2009 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 ended 31 December 2009 are set out in notes 25 and 26 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

During the year of 2009, the Company issued 11,461,950 new shares upon the exercise of the shares options granted under the Pre-IPO Share Option Scheme to subscribe for 10,360,630 shares and the share options granted under Share Option Scheme to subscribe for 1,101,320 shares.

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 ended 31 December 2009 are set out in note 27 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Group's retained profits and share premium account after the proposed 2009 final dividend, amounting to approximately RMB201,273,000 and RMB174,200,000, respectively. It provides a total of approximately RMB375,473,000 to be available for distribution.

As at 31 December 2009, the Company's reserves available for distribution after the proposed 2009 final dividend amounted to approximately RMB190,743,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2009, the five largest customers of the Group accounted to approximately 70% of the Group's total revenues while the largest customer of the Group accounted to approximately 44% of the Group's total revenues. In addition, for the year ended 31 December 2009, 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 of Hong Kong Limited (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' REPORT

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

Independent non-executive Directors:
Mr. Hui, Harry Chi
Mr. Chan Yiu Kwong
Mr. Zeng Liqing (appointed on 23 October 2009)
Mr. Song Yonghua (resigned on 28 September 2009)

In accordance with article 87(1) of the Company's articles of association, one third of the Directors will retire and, being eligible, 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. Chan Yiu Kwong and Mr. Zeng Liqing. 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 18 to 20 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 except that Mr. Zeng Liqing's contract commenced from 23 October 2009, 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' REPORT

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 32 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 year ended 31 December 2009.

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 ended 31 December 2009.

Save as disclosed in note 32 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 32 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 2009, 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 of Hong Kong Limited (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	Founder of trust[1]	159,565,954	Nil	34.86%
	Personal	1,868,000	455,441	0.51%
Mr. Li Wei	Family[2]	42,601,756	Nil	9.31%
Ms. Ho Yip, Betty	Personal	1,000,000	1,308,000[3]	0.51%
Mr. Lin Yizhong	Corporate	4,763,272	Nil	1.04%
	Personal	1,101,320	3,303,960	0.96%

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 2009, Prime Century directly held 122,371,905 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 2009, 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 26 to the financial statements.

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

	Number of share options							
Category of participants	**At 1 January 2009**	**Exercised during the year**	**Lapsed/ forfeited during the year**	**At 31 December 2009**	**Date of grant of share options**	**Vesting period of share options**	**End of exercise period**	**Exercise price of share options HK$ per share**
Senior management of the Group	379,200	(175,280)	–	203,920	21 May 2008	minimum of 3 years and maximum of 4 years	21 May 2012	ranging from HK$0.16 to HK$0.74 per share
Other employees and eligible persons	17,990,800	(10,185,350)	(4,474,030)	3,331,420	21 May 2008	minimum of 3 years and maximum of 4 years	21 May 2012	ranging from HK$0.17 to HK$0.91 per share
In aggregate	18,370,000	(10,360,630)	(4,474,030)	3,535,340				

No share options granted under the Pre-IPO Share Option Scheme were cancelled during the year ended 31 December 2009.

During the year ended 31 December 2009, 10,360,630 share options granted under the Pre-IPO Share Option Scheme were exercised and 4,474,030 share options lapsed following resignation of the relevant employees.

As at the date of this annual report, there were 2,665,580 outstanding share options granted under the Pre-IPO Share Option Scheme, representing an aggregate of approximately 0.58% 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 26 to the financial statements.

DIRECTORS' REPORT

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

Name/category of participants	Number of share options: At 1 January 2009	Exercised during the year	Granted during the year	At 31 December 2009	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share	Closing price of shares immediately before date of grant
Directors of the Company									
Mr. Liu Xiaosong	–	–	455,441	455,441	5 October 2009	one-third of the share options granted will be vested after every 12-month period starting from 5 October 2010	5 October 2014	3.168	2.98
Mr. Lin Yizhong	4,405,280	(1,101,320)*	–	3,303,960	15 October 2008	one-fourth of the share options granted will be vested after every 12-month period starting from 15 October 2008	14 October 2018	1,184	1.15
Ms. Ho Yip, Betty	108,000	–	–	108,000	16 October 2008	one-fourth of the share options granted will be vested after every 12-month period starting from 16 October 2008	15 October 2018	1.16	1.08
	–	–	1,200,000	1,200,000	21 September 2009	one-third of the share options granted will be vested after every 12-month period starting from 21 September 2010	21 September 2014	3.63	3.63
	108,000	–	1,200,000	1,308,000					
Senior Management of the Group	–	–	4,555,665	4,555,665	5 October 2009	one-fourth of the share options granted will be vested after every 12-month period starting from 1 July 2010	5 October 2014	3.168	2.98
Other employees and eligible persons	–	–	10,009,200	10,009,200	5 October 2009	one-fourth of the share options granted will be vested after every 12-month period starting from 1 July 2010	5 October 2014	3.168	2.98
Other employees and eligible persons	–	–	3,088,000	3,088,000	24 December 2009	Minimum of 2 years and maximum of 4 years	24 December 2014	3.2	3.13
In aggregate	4,513,280	(1,101,320)	19,308,306	22,720,266					

* Exercise price was HK$1.184 and the weighted average closing price of the Securities immediately before the date on which the option was exercised was HK$3.386.

During the year ended 31 December 2009, 1,101,320 share options granted under the Share Option Scheme were exercised, 19,308,306 share options were granted under the Share Option Scheme.

No share options granted under the Share Option Scheme were lapsed or cancelled during the year ended 31 December 2009.

As at the date of this annual report, there were 22,580,666 outstanding share options and 20,231,214 un-issued share options available under the Share Option Scheme, representing an aggregate of approximately 9.33% of the issued share capital of the Company as at the date of this annual report. For further information of the Share Option Scheme, please refer to note 26 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 26 to the financial statements for the value of share options granted.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2009, 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)	181,165,954	39.58%
River Road	Corporate(i)	159,565,954	34.86%
Knight Bridge	Corporate(i)	159,565,954	34.86%
Ever Novel	Corporate(ii)	122,371,905	26.73%
	Beneficial Owner(ii)	37,194,049	8.13%
Prime Century	Beneficial Owner(ii)	122,371,905	26.73%
Ms. Cui Jingtao	Corporate(iii)	42,601,756	9.31%
Success Profit	Corporate(iii)	42,601,756	9.31%
Top Result	Beneficial Owner(iii)	42,601,756	9.31%

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 2009, Prime Century directly held 122,371,905 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 122,371,905 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 2009, 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.

Each of the Consultancy Agreements 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.

Each of 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 software SPA.

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 Exclusive Right and Pledge Agreement agreement; (ii) the completion of the disposal of the equity interests in the Operator in accordance with the terms of the Exclusive Right and Pledge Agreement 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 Exclusive Right and Pledge Agreement agreement, the Exclusive Right and Pledge Agreement 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 the transactions carried out during the financial year had been entered into (i) in the ordinary and usual course of business of the Company; (ii) on terms no less favourable to the Company than those available to or from (as the case may be) independent third parties; and (iii) in accordance with the relevant provisions of the Structure Contracts that were fair and reasonable and in the interests of the Company and its shareholders as a whole. The Company's independent non-executive Directors also 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 each Operator and their subsidiaries had been mainly retained by the Group; (ii) no dividends or other distributions had been made by each Operator to their shareholders; and (iii) any new Structure Contracts entered into, renewed or reproduced between the Group and each Operator 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.

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.

On 26 May 2008, each of the then 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 ("Grand Idea"), 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 then controlling shareholders, so long as he or his associates directly or indirectly holds an equity interest in the Group; and

(iii) the then 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.

As disclosed in the announcement of the Company dated 24 April 2009 and 9 July 2009, as a result of the reorganisation of the shareholdings in the Company by certain shareholders of the Company, Prime Century and Grand Idea have ceased to become the controlling shareholders of the Company respectively, but they remain to be bound by the provision of the deed of non-compete.

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

DIRECTORS' REPORT

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 2009.

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
24 March 2010

CORPORATE GOVERNANCE REPORT

The Group is committed to achieving high standards of corporate governance to safeguard the interests of its 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 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 year ended 31 December 2009, the Company has complied with the code provisions as set out in the CG Code, except for the deviations from code provisions A.2.1 and Rules 3.10(1) and 3.21 of the Listing Rules.

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.

CORPORATE GOVERNANCE REPORT

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 year ended 31 December 2009, the Board at all time met the relevant requirements of the Listing Rules relating to the appointment of at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

However, the requirement of appointment of at least three independent non-executive directors, was not met upon the resignation of Mr. Song Yonghua on 28 September 2009 when the number of independent non-executive directors fell below the minimum number required under Rule 3.10(1) of the Listing Rules and the number of members of the Audit Committee of the Company also fell below the minimum number required under Rules 3.21 of the Listing Rules. The Company re-complied with Rules 3.10(1) and 3.21 of the Listing Rules when the Board appointed Mr. Zeng Liqing as the independent non-executive Director and the member of the audit committee and the remuneration committee on 23 October 2009.

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 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 is appointed for a specific term of three years and is subject to retirement by rotation once every three years. The appointment may be terminated by not less than one month's written notice.

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 15 April 2010 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.

During the period ended 31 December 2009, five 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 2009 are set out below:

Name of Director	Attendance/ Number of Meetings
Mr. Liu Xiaosong *(Chairman)*	5/5
Mr. Lin Yizhong	5/5
Ms. Ho Yip, Betty	5/5
Mr. Li Wei	4/5
Mr. Chan Yiu Kwong	5/5
Mr. Hui, Harry Chi	0/5
Mr. Zeng Liqing(1)	1/1
Mr. Song Yonghua(2)	2/4

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%.

Notes:

1. Mr. Zeng Liqing has been appointed as an independent non-executive Director of the company on 23 October 2009;

2. Mr. Song Yonghua resigned as an independent non-executive Director of the Company on 28 September 2009.

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 diversified 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 year.

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. Hui, Harry Chi, Mr. Song Yong Hua (Mr. Song Yonghua resigned on 28 September 2009) and Mr. Zeng Liqing (Mr. Zeng Liqing has been appointed on 23 October 2009). 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.

During the year ended 31 December 2009, one meeting was held by the Remuneration Committee for reviewing the remuneration package of the Directors and senior management.

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

Name of Director	Attendance/ Number of Meetings
Mr. Liu Xiaosong *(Chairman)*	1/1
Mr. Hui, Harry Chi	0/1
Mr. Song Yong Hua[(1)]	1/1
Mr. Zeng Liqing[(2)]	0/1

Notes:

1. Mr. Song Yonghua resigned on 28 September 2009;

2. Mr. Zeng Liqing has been appointed on 23 October 2009.

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Yiu Kwong (Chairman), Mr. Hui, Harry Chi, Mr. Song Yong Hua (Mr. Song Yonghua resigned on 28 September 2009) and Mr. Zeng Liqing (Mr. Zeng Liqing has been appointed on 23 October 2009) (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 year ended 31 December 2009 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
Mr. Zeng Liqing[(1)]	0/2

Note:

1. Mr. Zeng Liqing has been appointed on 23 October 2009.

The Company's annual results for the year ended 31 December 2009 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 year ended 31 December 2009.

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 2009.

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 2009, 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	1,014
Non-audit services	
– other services	185
Total	1,199

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 Group 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 internal audit department to review and check internal control regularly and systematically. Report from 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
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of A8 Digital Music Holdings Limited set out on pages 49 to 122, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 2009 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

24 March 2010

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
REVENUE		**707,148**	706,079
Business tax		**(11,292)**	(14,196)
Net revenue	*6*	**695,856**	691,883
Cost of services provided		**(425,723)**	(425,806)
Gross profit		**270,133**	266,077
Other income and gains, net	*6*	**11,543**	7,624
Selling and marketing expenses		**(112,852)**	(115,281)
Administrative expenses		**(50,145)**	(44,180)
Other expenses		**(87)**	(17,257)
Finance costs	*7*	**–**	(2,015)
PROFIT BEFORE TAX	*8*	**118,592**	94,968
Income tax expense	*10*	**(16,423)**	(14,168)
PROFIT FOR THE YEAR		**102,169**	80,800
Attributable to:			
Owners of the Company	*11*	**102,008**	80,170
Minority interests		**161**	630
		102,169	80,800
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*13*		
Basic *(RMB per share)*		**0.23**	0.20
Diluted *(RMB per share)*		**0.22**	0.19

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2009

	2009	2008
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**102,169**	80,800
OTHER COMPREHENSIVE INCOME		
Exchange realignment	**(194)**	(217)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**101,975**	80,583
Attributable to:		
Owners of the Company	**101,814**	79,953
Minority interests	**161**	630
	101,975	80,583

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	6,379	6,328
Prepaid land lease payments	15	27,997	28,583
Intangible assets	16	13,652	703
Deferred tax assets	24	1,803	4,899
Total non-current assets		49,831	40,513
CURRENT ASSETS			
Accounts receivable	18	121,926	101,657
Prepayments, deposits and other receivables	19	28,409	19,572
Investments at fair value through profit or loss	20	45,134	1,949
Time deposits with original maturity of more than three months		23,020	–
Cash and cash equivalents	21	333,801	315,643
Total current assets		552,290	438,821
CURRENT LIABILITIES			
Accounts payable	22	54,653	58,617
Other payables and accruals	23	42,036	39,121
Tax payable		18,793	10,997
Deferred income		1,200	4,000
Total current liabilities		116,682	112,735
NET CURRENT ASSETS		435,608	326,086
TOTAL ASSETS LESS CURRENT LIABILITIES		485,439	366,599
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	2,661	813
Total non-current liabilities		2,661	813
Net assets		482,778	365,786

	Notes	2009 RMB'000	2008 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	25	4,045	3,944
Reserves	27(a)	457,782	361,192
Proposed final dividends	12	20,140	–
		481,967	365,136
Minority interests		811	650
Total equity		482,778	365,786

Liu Xiaosong
Director

Ho Yip, Betty
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2009

	Attributable to owners of the Company													
	Issued capital	Share premium account	Merger reserve	Surplus contributions	Employee share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	Statutory reserve funds	Reserve fund	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	RMB'000 *(note 25)*	*RMB'000* *(note 25)*	*RMB'000* *(note 27(a))*	*RMB'000* *(note 27(a))*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000* *(note 27(a))*	*RMB'000* *(note 27(a))*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	512	–	28,680	10,522	–	2,596	800	6,829	4,422	127,123	–	181,484	20	181,504
Total comprehensive income 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 arrangements	–	–	–	–	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 and 1 January 2009	3,944	181,562*	29,135*	10,522*	7,089*	2,379*	9,769*	13,102*	4,422*	103,212*	–	365,136	650	365,786
Total comprehensive income for the year	–	–	–	–	–	(194)	–	–	–	102,008	–	101,814	161	101,975
Exercise of share options	101	12,778	–	–	(4,512)	–	–	–	–	–	–	8,367	–	8,367
Equity-settled share option arrangements	–	–	–	–	6,650	–	–	–	–	–	–	6,650	–	6,650
Proposed final 2009 dividend *(note 12)*	–	(20,140)	–	–	–	–	–	–	–	–	20,140	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	3,947	–	(3,947)	–	–	–	–
At 31 December 2009	**4,045**	**174,200***	**29,135***	**10,522***	**9,227***	**2,185***	**9,769***	**17,049***	**4,422***	**201,273***	**20,140**	**481,967**	**811**	**482,778**

* These reserve accounts comprise the reserves of RMB457,782,000 (2008: RMB361,192,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		118,592	94,968
Adjustments for:			
Finance costs	7	–	2,015
Depreciation	8	2,855	2,994
Amortisation of prepaid land lease payments	8	586	97
Amortisation of intangible assets	8	939	87
Loss on disposal of items of property, plant and equipment	8	388	288
Gain on disposal of investments at fair value through profit or loss	6	(1,468)	(60)
Fair value loss/(gain) on investments at fair value through profit or loss	6, 8	(1,181)	3,811
Interest income	6	(5,095)	(2,611)
Equity-settled share option expenses	8	6,650	7,089
Excess over the cost of a business combination	6	(265)	–
		122,001	108,678
Increase in accounts receivable		(18,576)	(36,848)
Decrease/(increase) in prepayments, deposits and other receivables		(8,369)	2,565
Increase/(decrease) in accounts payable		(3,966)	40,568
Increase in other payables and accruals		337	20,368
Increase/(decrease) in deferred income		(2,800)	4,000
Cash generated from operations		88,627	139,331
Tax paid		(5,076)	(7,170)
Net cash flows from operating activities		83,551	132,161

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of a subsidiary	28	(3,267)	–
Purchases of items of property, plant and equipment	14	(3,190)	(2,982)
Proceeds from disposal of items of property, plant and equipment		23	204
Purchase of prepaid land lease payments	15	–	(29,265)
Purchases of intangible assets	16	(8,671)	(430)
Decrease in amounts due from related parties		–	59,708
Decrease in an amount due to a related company		–	(3,558)
Purchase of investments at fair value through profit or loss		(88,014)	–
Proceeds from sale of investments at fair value through profit or loss		47,478	11
Interest received		5,095	2,611
Increase in short term time deposits with original maturity of more than three months		(23,020)	–
Net cash flows from/(used in) investing activities		(73,566)	26,299
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		8,367	–
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 flows from financing activities		8,367	30,384
NET INCREASE IN CASH AND CASH EQUIVALENTS		18,352	188,844
Cash and cash equivalents at beginning of year		315,643	131,315
Effect of foreign exchange rate changes, net		(194)	(4,516)
CASH AND CASH EQUIVALENTS AT END OF YEAR		333,801	315,643
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	126,218	260,670
Time deposits with original maturity of less than three months when acquired		207,583	54,973
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		333,801	315,643

STATEMENT OF FINANCIAL POSITION

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Interests in subsidiaries	17	80,033	74,434
CURRENT ASSETS			
Other receivables		422	143
Amounts due from subsidiaries	17	12,372	–
Investments at fair value through profit or loss	20	34,004	–
Cash and cash equivalents	21	96,380	128,002
Total current assets		143,178	128,145
CURRENT LIABILITIES			
Amount due to a subsidiary	17	2,097	585
Other payables and accruals		1,202	–
Total current liabilities		3,299	585
NET CURRENT ASSETS		139,879	127,560
Net assets		219,912	201,994
EQUITY			
Issued capital	25	4,045	3,944
Reserves	27(b)	195,727	198,050
Proposed final dividends	12	20,140	–
Total equity		219,912	201,994

Liu Xiaosong
Director

Ho Yip, Betty
Director

1. CORPORATE INFORMATION

A8 Digital Music Holdings Limited is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in selling music content through mobile phones as ringtones, ringback tones and interactive voice response music in the People's Republic of China (the "PRC" or "Mainland China").

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 the 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 investments at fair value through profit or loss which have 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.

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's on the Main Board of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the companies then comprising the Group on 26 May 2008. Since the Company and the companies then 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 for the year ended 31 December 2008 have been prepared on the basis as if the Company had always been the holding company of A8 Music Group Limited ("A8 Music"). The consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the year ended 31 December 2008 include the results and cash flows of all companies then comprising the Group, as if the current structure had been in existence throughout the year ended 31 December 2008, or since their respective dates of acquisition, incorporation or establishment, where this is a shorter period.

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

2. BASIS OF PREPARATION *(Continued)*

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised 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 and revised IFRSs has had no significant effect on these financial statements.

IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS *7 Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
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*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

* Included in Improvements to IFRSs 2009 (as issued in April 2009).

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

The principal effects of adopting these new and revised IFRSs are as follows:

(a) Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

(b) Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 34 to the financial statements while the revised liquidity risk disclosures are presented in note 35 to the financial statements.

(c) IFRS 8 *Operating Segments*

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. These revised disclosures are shown in note 5 to the financial statements.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(d) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

(e) Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(f) IAS 23 (Revised) *Borrowing Costs*

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(g) Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

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

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(h) Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(i) IFRIC 13 *Customer Loyalty Programmes*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(j) IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. The interpretation has had no impact on the accounting for the Group's construction activities. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(k) IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IFRIC 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(l) IFRIC 18 *Transfers of Assets from Customers (adopted from 1 July 2009)*

IFRIC 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) In May 2008, the IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs. Except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IFRS 7 *Financial Instruments: Disclosures*: Removes the reference to "total interest income" as a component of finance costs.

- IAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the statement of financial position.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(m) *(continued)*

- IAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

  In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with IAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

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

- IAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

- IAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

- IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

  The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES *(Continued)*

(m) *(continued)*

- IAS 39 *Financial Instruments: Recognition and Measurement*: (i) sets out a number of changes in circumstances relating to derivatives that are not considered to result in reclassification into or out of the fair value through profit or loss category; (ii) removes the reference to the designation of hedging instrument at the segment level; and (iii) requires that the revised effective interest rate (rather than the original effective interest rate) calculated on cessation of fair value hedge accounting should be used for the remeasurement of the hedged item when paragraph AG8 of IAS 39 is applicable.

- IAS 40 *Investment Property*: Revises the scope such that property being constructed or developed for future as an investment property is classified as an investment property. The Group has applied the amendments prospectively from 1 January 2009.

3.2 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
IFRS 1 Amendment	*Limited Exemption from Comparative* IFRS 7 *Disclosures for First-time Adopters*[4]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation - Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*[1]

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

Apart from the above, the IASB has issued Improvements to IFRSs 2009 which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

[1] Effective for annual periods beginning on or after 1 July 2009
[2] Effective for annual periods beginning on or after 1 January 2010
[3] Effective for annual periods beginning on or after 1 February 2010
[4] Effective for annual periods beginning on or after 1 July 2010
[5] Effective for annual periods beginning on or after 1 January 2011
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that 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

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.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

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 the end of each reporting period 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

Trademarks, licences and software

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

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding three years, commencing from the date when the products are put into commercial production.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, and loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and bank balances, trade and other receivables, loan receivables, quoted and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends on these financial assets, which are recognised separately in the income statement.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss (Continued)

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. 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.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 flow analysis.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include accounts payable, other payables and interest-bearing loans and borrowings.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities *(Continued)*

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

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 selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. 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 value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, 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 statements of financial position, 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 end of the reporting period 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 relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or 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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Foreign currencies

These financial statements are presented in Renminbi, which is the functional and presentation currency of the Company's subsidiaries. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currency of the Company and certain subsidiaries is Hong Kong dollars. As at the end of the reporting period, the assets and liabilities of the Company and the subsidiaries are translated into the presentation currency of the Group at the exchange rates ruling at the end of the reporting period and the income statements of the Company and the subsidiaries are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, 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 subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Revenue recognition

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

The Group principally derives revenue from selling music content through mobile phones as ringtones, ringback tones 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

The Mobile and Telecom Service Fees and the Mobile and Telecom Charges, or the net amount of the two, are confirmed and/or advised by subsidiaries of China Mobile and China Unicom to the Group on a regular basis. For revenue whose amount is not confirmed/advised by the two mobile operators at the time of reporting the financial results of the Group, management of the Group estimates the amount receivable based on historical data, which reflect developing trends in customer payment delinquencies. Historical data used in estimating revenues include the most recent history of the Mobile and Telecom Service Fees actually derived from the operators, the number of subscriptions and the volume of data transmitted between the network gateways of the Group, China Mobile and China Unicom. Adjustments are made in subsequent periods in case the actual revenue amounts are different from the original estimates.

Employee benefits

Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting 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 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Equity compensation benefits (Continued)

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. 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. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as an additional share dilution in the computation of earnings per share.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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 end of the reporting period. 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:

Accounting for companies governed under contractual arrangements as subsidiaries

As further detailed in note 17(a) below, A8 Music Group Limited does not have equity ownership in Shenzhen Huadong Feitian Network Development Co., Ltd., 45Doo.com Ltd., Fuzhou Zhuolong Tianxun Information Technology Ltd., Jiangsu Guangshi Science and Trade Development Limited and Shenzhen Kuaitonglian Technology Co., Ltd. (collectively the "Group of Subsidiaries"). Nevertheless, under the contractual agreements entered into between the Group of Subsidiaries, their respective registered owners and Cash River Information Technology (Shenzhen) Limited ("Cash River"), management has determined that the Group controls the financial and operating policies of the Group of Subsidiaries so as to obtain benefits from their activities. As such, the Group of Subsidiaries and their respective subsidiaries are accounted for as subsidiaries of the Group for accounting purposes.

(ii) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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 3.3, 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(Continued)

(ii) Estimation uncertainty *(Continued)*

(b) Recognition of share-based compensation expenses

As detailed in note 26 below, the Company has 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 the 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 2009, which are recognised as share-based compensation, determined using the Black-Scholes-Merton Option Pricing Model was approximately RMB19,108,000 (2008: RMB14,684,000).

(c) Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 3.3 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2009, the best estimate of the carrying amount of capitalised development costs was RMB3,312,000 (2008: Nil).

5. OPERATING SEGMENT INFORMATION

The directors consider that the Group's activities constitute one operating segment as the Group is principally engaged in selling music content through mobile phones. Management makes decisions about resource allocation and performance assessment on a group basis.

Over 90% of the Group's revenue from external customers is derived from the Group's operations in the PRC, and no non-current assets of the Group are located outside the PRC.

Revenue of approximately RMB312,875,000 (2008: RMB324,956,000) and RMB77,828,000 (2008: RMB55,572,000) respectively were derived from selling music content through mobile phone to the two largest customers.

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:

	2009 *RMB'000*	2008 *RMB'000*
Revenue		
Ringtone services	**99,684**	86,882
Ringback tone services	**204,502**	272,912
Interactive voice response music	**102,232**	119,452
Other music related services	**40,901**	16,010
Non-music related services	**259,829**	210,823
	707,148	706,079
Less: Business tax	**(11,292)**	(14,196)
Net revenue	**695,856**	691,883
Other income and gains, net		
Interest income	**5,095**	2,611
Gain on disposal of investments at fair value through profit or loss	**1,468**	60
Fair value gain on investments at fair value through profit or loss	**1,181**	–
Excess over the cost of a business combination	**265**	–
Government grant	**–**	3,000
Others	**3,506**	1,927
Exchange gain	**28**	26
	11,543	7,624

7. FINANCE COSTS

	2009 *RMB'000*	2008 *RMB'000*
Interest expense on convertible redeemable preferred shares	**–**	2,015

8. PROFIT BEFORE TAX

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

	2009 RMB'000	2008 RMB'000
Depreciation	2,855	2,994
Amortisation of intangible assets#	939	87
Amortisation of prepaid land lease payments#	586	97
Operating lease rentals in respect of office buildings	4,808	3,541
Auditors' remuneration	1,014	1,408
Employee benefit expense (including directors' remuneration *(note 9)*):		
Wages, salaries and bonuses	41,441	38,629
Welfare, medical and other expenses	2,995	1,200
Contributions to social security plans	5,386	3,750
Equity-settled share option expense	6,650	7,089
	56,472	50,668
Loss on disposal of items of property, plant and equipment	388	288
Mobile and Telecom Charges*	195,108	197,496
Fair value (gain)/loss on investments at fair value through profit or loss	(1,181)	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.

9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

	2009 RMB'000	2008 RMB'000
Fees	219	116
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	3,836	4,728
Equity-settled share option expense	1,545	1,711
Pension scheme contributions	71	37
	5,452	6,476
	5,671	6,592

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company. The fair value of such options 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 directors' remuneration disclosures.

During the prior year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company and the Join Reach share option scheme, and a director was awarded shares in Join Reach Limited which holds an indirect interest in the Company in respect of his services to the Group. 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 prior year is included in the above directors' remuneration disclosures.

Further details are set out in note 26 to the financial statements.

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:

2009

	Fees *RMB'000*	Bonuses *RMB'000*	Total remuneration *RMB'000*
Independent non-executive directors:			
Mr. Hui, Harry Chi	44	–	44
Mr. Song Yong Hua	35	–	35
Mr. Chan Yiu Kong	132	–	132
Mr. Zeng Liqing	8	–	8
	219	–	219

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

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

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

(a) Directors' remuneration *(Continued)*

(ii) Executive directors and non-executive directors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009					
Executive directors:					
Mr. Liu Xiaosong ("Mr. Liu")	–	1,176	62	32	1,270
Ms. Ho Yip, Betty	–	1,737	948	11	2,696
Mr. Lin Yizhong	–	923	535	28	1,486
	–	3,836	1,545	71	5,452
Non-executive director:					
Mr. Li Wei	–	–	–	–	–
	–	3,836	1,545	71	5,452

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration 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

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

(b) Five highest paid individuals

The five highest paid individuals included three (2008: three) directors, details of whose remuneration are set as above. Details of the remuneration of the remaining two (2008: two) non-director, highest paid individuals for the year are as follows:

	2009	2008
	RMB'000	*RMB'000*
Salaries, bonuses, allowances and benefits in kind	**1,080**	1,040
Equity-settled share option expense	**1,219**	765
Pension scheme contributions	**32**	24
	2,331	1,829

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

	Number of employees	
	2009	2008
Nil to RMB1,000,000	**1**	2
RMB1,000,001 to RMB2,000,000	**1**	–
	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. INCOME 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 (2008: Nil). The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing rates in the jurisdictions in which the subsidiaries operate.

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

	2009	2008
	RMB'000	*RMB'000*
Group		
Current – PRC		
Charge for the year	**12,783**	19,067
Deferred *(note 24)*	**3,640**	(4,899)
Total tax charge for the year	**16,423**	14,168

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 Detailed Implementation Regulations (the "DIR") on 6 December 2007, which became effective from 1 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 rates granted by the relevant tax authorities, the new corporate income tax rate may be gradually increased to 25% within five years after the effective date of the New Corporate Income Tax Law. For regions that enjoy 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"), Kuaitonglian and Cash River, were established and operate at the Shenzhen Special Economic Zone of the PRC. Accordingly, they are subject to income tax at a rate of 20% for the year ended 31 December 2009.

Beijing Aiyue Cultural Broadcasting Co., Ltd. ("Aiyue"), Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. ("Yuesheng Feiyang") and Huadong Feitian are subject to a preferential tax rate of 15% as it is recognised as a high technology enterprise for the year ended 31 December 2009.

10. INCOME TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax at 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 follows:

	2009					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit/(loss) before tax	(5,055)		123,647		118,592	
Tax calculated at the statutory tax rate	(834)	16.5	30,911	25.0	30,077	25.4
Preferential tax rates	–	–	(12,219)	(9.9)	(12,219)	(10.3)
Super-deduction of research and development expenditure	–	–	(1,814)	(1.5)	(1,814)	(1.5)
Income not subject to tax	(1,492)	29.5	(1,050)	(0.8)	(2,542)	(2.1)
Expenses not deductible for tax purposes	2,326	(46.0)	350	0.3	2,676	2.1
Tax losses not recognised	–	–	245	0.2	245	0.2
Tax charge at the Group's effective rate	–	–	16,423	13.3	16,423	13.8

	2008					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit/(loss) before tax	(13,920)		108,888		94,968	
Tax calculated at the statutory tax rate	(2,297)	16.5	27,222	25.0	24,925	26.2
Preferential tax rates	–	–	(12,000)	(11.0)	(12,000)	(12.6)
Income not subject to tax	(272)	2	(48)	(0.0)	(320)	(0.3)
Expenses not deductible for tax purposes	2,569	(18.5)	638	0.5	3,207	3.4
Tax losses utilised from previous periods	–	–	(1,687)	(1.5)	(1,687)	(1.8)
Tax losses not recognised	–	–	43	0.0	43	0.0
Tax charge at the Group's effective rate	–	–	14,168	13.0	14,168	14.9

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2009 includes a profit of RMB949,000 (2008: RMB2,580,000) which has been dealt with in the financial statements of the Company (note 27(b)).

12. DIVIDENDS

	2009	2008
	RMB'000	*RMB'000*
Proposed final – HK5 cent (2008: Nil) per ordinary share	**20,140**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

On 26 May 2008, A8 Music declared a special dividend of RMB97,808,000 to its then sole shareholder. 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 for the prior year.

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

The calculation of the basic earnings per share amount for the year ended 31 December 2009 is based on the profit for the year attributable to equity holders of the Company of RMB102,008,000 (2008: RMB80,170,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2009 of 451,696,000 (2008: 407,513,000).

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit for the year attributable to equity holders of the Company of RMB102,008,000 (2008: 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 451,696,000 (2008: 407,513,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 8,598,000 (2008: 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 2009					
At 1 January 2009:					
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
At 1 January 2009, net of accumulated depreciation	4,649	503	735	441	6,328
Additions	2,769	182	–	239	3,190
Acquisition of a subsidiary *(note 28)*	118	9	–	–	127
Disposals	(402)	(9)	–	–	(411)
Depreciation provided during the year	(1,563)	(437)	(366)	(489)	(2,855)
At 31 December 2009, net of accumulated depreciation	5,571	248	369	191	6,379
At 31 December 2009:					
Cost	12,167	1,962	2,094	3,811	20,034
Accumulated depreciation	(6,596)	(1,714)	(1,725)	(3,620)	(13,655)
Net carrying amount	5,571	248	369	191	6,379

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 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

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2009 **RMB'000**	2008 *RMB'000*
Carrying amount at 1 January	**29,168**	–
Additions	**–**	29,265
Amortised during the year	**(586)**	(97)
Carrying amount at 31 December	**28,582**	29,168
Current portion included in prepayments, deposits and other receivables *(note 19)*	**(585)**	(585)
Non-current portion	**27,997**	28,583

16. INTANGIBLE ASSETS

Group

	Deferred development costs RMB'000	Trademarks, licences and software RMB'000	Total RMB'000
31 December 2009			
Cost at 1 January 2009, net of accumulated amortisation	–	703	703
Acquisition of a subsidiary *(note 28)*	–	5,217	5,217
Additions	3,312	5,359	8,671
Amortisation provided during the year	–	(939)	(939)
At 31 December 2009	3,312	10,340	13,652
At 31 December 2009:			
Cost	3,312	11,588	14,900
Accumulated amortisation	–	(1,248)	(1,248)
Net carrying amount	3,312	10,340	13,652
31 December 2008			
Cost at 1 January 2008, net of accumulated amortisation	–	360	360
Additions	–	430	430
Amortisation provided during the year	–	(87)	(87)
At 31 December 2008	–	703	703
At 31 December 2008:			
Cost	–	1,012	1,012
Accumulated amortisation	–	(309)	(309)
Net carrying amount	–	703	703

17. INTERESTS IN SUBSIDIARIES

	Company 2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	**74,333**	69,369
Capital contribution in respect of share-based compensation	**5,700**	5,065
	80,033	74,434

The amounts due from/to subsidiaries, included in the Company's current assets and liabilities, are unsecured, interest-free and have 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 ("A8 Music") *(notes (a) and (b))*	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) and (b))**#	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 (b))**@	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 *(notes (a) and (b))*@	PRC	RMB10,000,000 Registered capital	–	100	Dormant
深圳市快通聯科技有限公司 Shenzhen Kuaitonglian Technology Co., Ltd. *(notes (a) and (b))* *@	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 (b))* *@	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 (b))* *@	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 (b))* *@	PRC	RMB10,000,000 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 (b))* *@	PRC	RMB1,000,000 Registered capital	–	100	Provision of mobile value-added services
江蘇廣視科貿發展有限公司 Jiangsu Guangshi Science and Trade Development Limited *(notes (a) and (b)).* *	PRC	RMB10,700,000	–	100	Provision of mobile 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
福州卓龍天訊信息技術有限公司 Fuzhou Zhuolong Tianxun Information Technology Ltd. *(notes (a) and (b))**@	PRC	RMB10,000,000	–	100	Provision of mobile value-added services
北京海德中世文化傳媒有限公司 Beijing Haide Zhongshi Cultural Broadcasting Co., Ltd. *(note (b))**@	PRC	RMB1,000,000	–	100	Dormant
北京樂音無限文化傳播有限公司 Beijing Yueyin Wuxian Cultural Broadcasting Co., Ltd. *(note (b))**@	PRC	RMB1,000,000	–	100	Dormant
Total Plus Limited	Hong Kong	HK$10,000 Issued capital	–	100	Investment holding

* 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 PRC law.

@ Registered as domestic limited liability companies under PRC law.

Notes:

(a) 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 these companies. In order to enable the Company to make investment in the telecommunications value-added services in the PRC, the equity interests of these companies are held by individual nominees on behalf of the Group and certain contractual agreements have been effectuated among these companies, their respective registered owners and Cash River to the effect that the operating and financial decisions of these companies are effectively controlled by the Company.

As a result of the contractual agreements, these companies are accounted for as subsidiaries of the Company for accounting purposes.

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

18. ACCOUNTS RECEIVABLE

	Group 2009 RMB'000	2008 RMB'000
Accounts receivable	**121,926**	101,657

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 Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

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

	Group 2009 RMB'000	2008 RMB'000
At 1 January	**–**	1,256
Amount written off as uncollectible	**–**	(1,256)
At 31 December	**–**	–

The individually impaired accounts receivable in 2008 related to customers that were in default. The Group did not hold any collateral or other credit enhancements over these balances.

18. ACCOUNTS RECEIVABLE *(Continued)*

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired:		
Within 1 month	**66,304**	45,314
1 to 2 months	**31,420**	23,201
2 to 3 months	**10,656**	16,797
3 to 4 months	**4,882**	5,924
Past due but not impaired:		
4 to 6 months	**6,387**	7,806
Over 6 months	**2,277**	2,615
	121,926	101,657

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	
	2009	2008
	RMB'000	*RMB'000*
Prepayments	**10,455**	5,438
Prepaid land lease payments *(note 15)*	**585**	585
Deposits and other receivables	**18,756**	14,936
Impairment	**(1,387)**	(1,387)
	28,409	19,572

The financial assets as at the reporting 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. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed equity investments in Mainland China, at fair value	**3,130**	1,949	**–**	–
Unlisted investments, at fair value	**42,004**	–	**34,004**	–
	45,134	1,949	**34,004**	–

The above listed equity investments were upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss and are stated at fair values.

The Group's and Company's unlisted investments represent fund and note investments and the fair values were based on values quoted by the relevant financial institutions.

As at 31 December 2009, the Group's and Company's unlisted investments, amounting to RMB34,004,000, are capital-protected if they are held to maturity.

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**126,218**	260,670	**28,331**	128,002
Short term deposits	**207,583**	54,973	**68,049**	–
Cash and cash equivalents	**333,801**	315,643	**96,380**	128,002
Denominated in RMB	**236,316**	185,887	**–**	–
Denominated in other currencies	**97,485**	129,756	**96,380**	128,002
Cash and cash equivalents	**333,801**	315,643	**96,380**	128,002

At the end of the reporting period, 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 end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 1 month	**25,774**	18,378
1 to 3 months	**18,480**	21,927
4 to 6 months	**5,881**	12,554
Over 6 months	**4,518**	5,758
	54,653	58,617

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

23. OTHER PAYABLES AND ACCRUALS

	Group	
	2009	2008
	RMB'000	*RMB'000*
Other payables	**9,259**	8,163
Accruals	**32,777**	30,958
	42,036	39,121

24. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Group

	Deductible temporary differences	Transfer of profit derived from contractual agreements	Fair value adjustments arising from acquisition of subsidiaries	Fair value gain on investments at fair value through profit or loss	Development costs	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	–	(813)	–	–	–	(813)
Deferred tax credited to the income statement during the year *(note 10)*	4,899	–	–	–	–	4,899
At 31 December 2008 and 1 January 2009	4,899	(813)	–	–	–	4,086
Deferred tax credited/(charged) to the income statement during the year *(note 10)*	(3,096)	–	131	(177)	(498)	(3,640)
Acquisition of a subsidiary *(note 28)*	–	–	(1,304)	–	–	(1,304)
At 31 December 2009	**1,803**	**(813)**	**(1,173)**	**(177)**	**(498)**	**(858)**

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	1,803
Net deferred tax liabilities recognised in the consolidated statement of financial position	(2,661)
	(858)

24. DEFERRED TAX *(Continued)*

The Group has tax losses arising in Mainland China of RMB3,096,000 (2008: RMB4,871,000) 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 Mainland 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 2009, 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 totalled approximately RMB203,750,000 at 31 December 2009 (2008: RMB95,013,000).

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

25. SHARE CAPITAL

Shares

	2009 ***RMB'000***	2008 *RMB'000*
Authorised:		
3,000,000,000 (2008: 3,000,000,000) ordinary shares of HK$0.01 each	**26,513**	26,513
Issued and fully paid:		
457,749,950 (2008: 446,288,000) ordinary shares of HK$0.01 each	**4,045**	3,944

25. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

A summary of the transactions 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	6,450,000	65	–	57	–	57
Conversion of preferred shares	930,000	9	74,924	8	66,218	66,226
Capitalisation issue	352,620,000	3,526	(3,526)	3,116	(3,116)	–
Issue of shares in connection with the listing	80,000,000	800	151,200	707	133,628	134,335
Remuneration shares issued	528,000	5	(5)	5	(5)	–
Over-allotment of shares	5,760,000	58	10,400	51	9,191	9,242
Deemed distribution	–	–	(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 and 1 January 2009	446,288,000	4,463	205,437	3,944	181,562	185,506
Exercise of share options	11,461,950	115	14,487	101	12,778	12,879
Proposed final dividends *(note 12)*	–	–	(22,887)	–	(20,140)	(20,140)
As at 31 December 2009	**457,749,950**	**4,578**	**197,037**	**4,045**	**174,200**	**178,245**

During the year, a total of 10,360,630 share options under Pre-IPO share option scheme were exercised at exercise prices ranging from HK$0.16 to HK$0.91 per share, and a total of 1,101,320 share options under share option scheme were exercised at an exercise price of HK$1.18 per share.

26. 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 26 May 2008 and no share option under the Pre-IPO share option scheme is exercisable within the first six months from 12 June 2008.

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:

	2009		2008	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**0.77**	**18,370**	–	–
Granted during the year	**–**	**–**	0.77	18,702
Forfeited during the year	**0.87**	**(4,474)**	0.63	(332)
Exercised during the year	**0.78**	**(10,361)**	–	–
At 31 December	**0.60**	**3,535**	0.77	18,370

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.02 per share (2008: Nil).

26. SHARE OPTION SCHEMES *(Continued)*

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

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2009

Number of options '000	Exercise price* HK$ per share	Exercise period
69	0.16	1-2-2009 to 21-5-2012
114	0.17	1-2-2009 to 21-5-2012
154	0.27	1-2-2009 to 21-5-2012
135	0.29	1-2-2009 to 21-5-2012
152	0.39	1-2-2009 to 21-5-2012
89	0.40	1-2-2009 to 21-5-2012
86	0.45	1-2-2009 to 21-5-2012
150	0.50	1-2-2009 to 21-5-2012
433	0.52	1-2-2009 to 21-5-2012
206	0.65	1-2-2009 to 21-5-2012
1,947	0.74	1-2-2009 to 21-5-2012
3,535		

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.

26. SHARE OPTION SCHEMES *(Continued)*

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

The fair value of the share options granted in 2008 was RMB20,210,000 (RMB1.1 each). The Group recognised a share option expense of RMB2,518,000 (2008: RMB4,899,000) and a deemed distribution of Nil (2008: RMB8,969,000) to the then sole shareholder of the Company during the year ended 31 December 2009 in respect of share options granted in the prior year.

The fair value of equity-settled share options granted during the prior 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$ per share)*	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) Share option scheme

The Company operates a share option scheme for the purpose of motivating eligible persons to optimise their future contribution to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing 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 to reward them for their past contributions. The 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.

26. SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme *(Continued)*

The maximum number of shares which may be issued upon exercise of all options that can be granted under the 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 share option scheme was approved, i.e., 44,052,800 shares.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 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 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.

26. SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme *(Continued)*

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

	2009		2008	
	Weighted average exercise price *HK$ per share*	Number of options *'000*	Weighted average exercise price *HK$ per share*	Number of options *'000*
At 1 January	1.18	4,513	–	–
Granted during the year	3.20	19,308	1.18	4,513
Exercised during the year	1.18	(1,101)	–	–
At 31 December	2.90	22,720	1.18	4,513

The weighted average share price of share options exercised during the year at the date of exercise was HK$3.38 (2008: Nil).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2009

Number of options *'000*	Exercise price* *HK$ per share*	Exercise period
108	1.160	16-10-2009 to 15-10-2018
3,304	1.184	15-10-2010 to 14-10-2018
15,020	3.168	1-7-2010 to 5-10-2014
3,088	3.200	24-12-2009 to 24-12-2014
1,200	3.630	21-9-2010 to 21-9-2014
22,720		

26. SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme *(Continued)*

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 RMB19,108,000 (RMB0.99 each) (2008: RMB1,277,000 (RMB0.28 each)). The Group recognised a share option expense of RMB2,778,000 (2008: RMB166,000) during the year ended 31 December 2009 in respect of share options granted in the current and prior years.

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:

	2009	2008
Dividend yield *(%)*	**1.38 – 1.62**	2
Expected volatility *(%)*	**55.01 – 85.47**	55.20 – 65.52
Risk-free interest rate *(%)*	**0.12 – 1.50**	0.92 – 2.30
Expected life of options *(year)*	**0.5 – 4**	1 – 4
Weighted average share price *(HK$ per share)*	**3.09 – 3.63**	1.05 – 1.08

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.

26. SHARE OPTION SCHEMES *(Continued)*

(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 Technology Limited ("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.

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:

	2009		2008	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share	***'000***	*HK$ per share*	*'000*
At 1 January	**0.75**	**5,332**	–	–
Granted during the year	**–**	**–**	0.75	5,332
At 31 December	**0.75**	**5,332**	0.75	5,332

26. SHARE OPTION SCHEMES *(Continued)*

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

The exercise prices and exercise periods of the share options granted to the employees of the Company and its subsidiaries outstanding as at the end of the reporting period are as follows:

2009

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		

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.

The fair value of the share options granted to the employees at the Company and its subsidiaries in 2008 was RMB3,816,000 (RMB0.72 each). The Group recognised a share option expense of RMB1,354,000 (2008: RMB1,283,000) during the year ended 31 December 2009 in respect of share options granted in the prior year.

26. SHARE OPTION SCHEMES *(Continued)*

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

The fair value of equity-settled share options granted during the prior 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$ per share)*	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, a director of the Company was awarded 0.631 share in Prime Century in respect of his services to the Group in 2008. The fair value of the share was RMB741,000 which was recognised as an expense by the Group in 2008.

At the end of the reporting period, the Company had 26,255,000 share options outstanding under the Pre-IPO share option scheme and the 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 26,255,000 additional ordinary shares of the Company and additional share capital of HK$263,000 and share premium of HK$67,716,000 (before issue expenses).

Subsequent to the end of the reporting period, an aggregate of 822,240 share options under the Pre-IPO share option scheme and the share option scheme were exercised which result in the issue of 822,240 ordinary shares of the Company and new share capital of HK$8,222 (equivalent to RMB7,235) and share premium of HK$447,980 (equivalent to RMB394,222) (before issue expenses).

At the date of approval of these financial statements, the Company had 25,246,000 share options outstanding under the Pre-IPO share option scheme and the share option scheme, which represented approximately 5.51% of the Company's shares in issue as at that date.

27. 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 53 of the financial statements.

(i) *Merger reserve*

The merger reserve of the Group represents (i) the excess of 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 excess of the nominal value of the shares of the Company issued over the nominal value of A8 Music's shares acquired pursuant to the group reorganisation in 2008.

(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 and the registered owners, the then 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 reserve fund is 10%. When the balance of the statutory reserve fund reaches 50% of the paid-up/registered capital, no further appropriations are required to be made. The statutory reserve fund shall not be less than 25% of the original registered capital.

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

27. RESERVES *(Continued)*

(b) Company

	Share premium account	Capital reserve	Exchange fluctuation reserve	Employee share-based compensation reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	–	–	–	–	(2)	(2)
Total comprehensive income for the year	–	–	(124)	–	2,580	2,456
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	(8,969)	8,969	–	–	–	–
Equity-settled share option arrangement	–	–	–	5,065	–	5,065
At 31 December 2008 and 1 January 2009	181,562*	8,969*	(124)	5,065	2,578*	198,050
Total comprehensive income for the year	–	–	(741)	–	949	208
Equity-settled share option arrangement	–	–	–	5,296	–	5,296
Exercise of share options	16,825	–	–	(4,512)	–	12,313
Proposed final dividends *(note 12)*	(20,140)	–	–	–	–	(20,140)
At 31 December 2009	**178,247***	**8,969***	**(865)**	**5,849**	**3,527***	**195,727**

* These reserve accounts comprise the Company's reserves available for distribution amounting to RMB190,743,000 (2008: RMB193,109,000).

The employee share-based compensation reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for equity compensation benefits in note 3.3 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

28. BUSINESS COMBINATION

On 16 June 2009, the Group acquired a 100% interest in Jiangsu Guangshi Science and Trade Development Limited ("Jiangsu Guangshi"). Jiangsu Guangshi and its subsidiaries are engaged in the provision of mobile value-added services. The purchase consideration for the acquisition was in the form of cash, with RMB6,771,000 paid on 8 December 2009.

The fair values of the identifiable assets and liabilities of Jiangsu Guangshi and its subsidiaries as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000	Previous carrying amount RMB'000
Property, plant and equipment	14	127	127
Intangible assets	16	5,217	–
Cash and bank balances		3,504	3,504
Accounts receivable		1,693	3,374
Prepayments, deposits and other receivables		468	8,924
Accounts payable		(2)	(2)
Tax payable		(89)	(89)
Other payables and accruals		(2,578)	(2,578)
Deferred tax liabilities	24	(1,304)	–
		7,036	13,260
Excess over the cost of a business combination recognised in the income statement	6	265	
Satisfied by cash		6,771	

28. BUSINESS COMBINATION *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Jiangsu Guangshi and its subsidiaries is as follows:

	RMB'000
Cash consideration	(6,771)
Cash and bank balances acquired	3,504
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(3,267)

Since its acquisition, Jiangsu Guangshi and its subsidiaries contributed RMB6,599,000 to the Group's turnover and RMB3,688,000 to the consolidated profit for the year ended 31 December 2009.

Had the combination taken place at the beginning of the year, there would have been no significant impact on the revenue and profit of the Group for the year.

29. PENDING LITIGATION

In August 2009, an independent third party company (the "Plaintiff") instituted a legal proceeding against the Company and certain of its subsidiaries (collectively the "Defendants") claiming damages of RMB16,100,000 in relation to the alleged infringement of the copyright of a song. As at the date of approval of these financial statements, the date of the first court hearing has yet to be fixed. Based on the legal advice of the Company's legal adviser, it is premature for the Defendants to estimate the final outcome of the legal proceeding at the current stage. In the opinion of the Company's directors, the aforesaid legal proceeding will not have any material adverse impact on the financial position and operating results of the Group, thus no provision is needed to be made as of the date of this financial statement.

30. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements with lease terms ranging from one to three years. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases in respect of buildings as follows:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within one year	**3,927**	2,687
In the second to fifth years, inclusive	**5,102**	720
	9,029	3,407

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30 above, the Group had the following commitments as at the end of the reporting period:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Authorised, but not contracted for:		
Land and buildings	**120,000**	120,000

At the end of the reporting period, the Company did not have any significant commitments.

32. RELATED PARTY TRANSACTIONS

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

(b) The movements of balances with related parties for the prior year are as below.

	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 2008					
Registered owners:					
Mr. Liu	47,445	–	(47,445)	–	47,445
Ms. Cui Jingtao	151	–	(151)	–	151
Due from Beijing Wangle Tianxia Internet Information Services Co., Ltd.	12,112	–	(12,112)	–	12,112
	59,708	–	(59,708)	–	

(c) Compensation of key management personnel of the Group

	2009 *RMB'000*	2008 *RMB'000*
Short term employee benefits	**5,208**	5,989
Post-employment benefits	**103**	73
Equity-settled share option expenses	**2,764**	2,581
Total compensation paid to key management personnel	**8,075**	8,643

33. FINANCIAL INSTRUMENTS BY CATEGORY

Other than 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 2008 and 2009, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

34. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2009, the investments at fair value through profit or loss amounting to RMB37,134,000 (2008: RMB1,949,000) are measured at fair value in Level 1, and the investments at fair value through profit or loss amounting to RMB8,000,000 (2008: Nil) are measured at fair value in Level 2.

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 operations. The Group has various other financial assets and liabilities such as accounts receivable and accounts payable, 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 3.3 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*

The Group's financial liabilities are mature in less than one year as at the reporting date. The Group manages liquidity risk by maintaining a sufficient amount of bank deposits to ensure that 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 and other payables.

The investments at fair value through profit or loss have been measured at fair value. The carrying amounts of cash and cash equivalents, accounts receivable, prepayments, deposits and other receivables, accounts payable and other payables approximate to their fair values because of the immediate or short term maturity of these financial instruments.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Capital management

The primary objective of the Group's capital management are 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 and other payables and accruals. The amounts of the net cash over debt position at 31 December 2008 and 2009 were as follows:

	2009	2008
	RMB'000	*RMB'000*
Cash and cash equivalents	**333,801**	315,643
Accounts payable	**(54,653)**	(58,617)
Other payables and accruals	**(42,036)**	(39,121)
Net cash over debt position	**237,112**	217,905

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue of by the board of directors on 24 March 2010.

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