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
2010 年報

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Corporate Information

EXECUTIVE DIRECTOR
Mr. Liu Xiaosong

NON-EXECUTIVE DIRECTORS
Ms. Ho Yip, Betty
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

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

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Cayman Islands

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
35th floor, Bank of China Tower
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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				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**681,839**	707,148	706,079	285,964	268,438
Profit before tax	**47,433**	118,592	94,968	60,485	44,602
Income tax expense	**(5,115)**	(16,423)	(14,168)	(5,248)	(5,314)
Profit for the year	**42,318**	102,169	80,800	55,237	39,288
Attributable to:					
Owners of the Company	**41,765**	102,008	80,170	55,274	39,863
Non-controlling interests	**553**	161	630	(37)	(575)
	42,318	102,169	80,800	55,237	39,288

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As of 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**641,032**	602,121	479,334	291,187	230,460
Total liabilities	**(119,514)**	(119,343)	(113,548)	(109,683)	(106,789)
Non-controlling interests	**(826)**	(811)	(650)	(20)	(57)
	520,692	481,967	365,136	181,484	123,614

The consolidated results of A8 Digital Music Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2010 and the consolidated assets, liabilities and equity of the Group as at 31 December 2010 are those set out in the audited financial statements.

Chairman's Statement

Liu Xiaosong
Chairman

Dear Shareholders,

2010 was a transitional year for the Group. As mentioned in the Group's interim report, the implementation of WVAS policy restrictions from mobile operators in the second quarter of 2010 has made negative impact on the operations of the WVAS business of the Group. In response to the changes of industry policy and the development trend, the Group further enhanced the cooperation with its business partners and streamlined operations in respect of the traditional WVAS business so as to maintain and consolidate its leading position in the wireless music market.

Meanwhile, at the strategic level, a preliminary business model has been formed through refining the management and corporate structure, as well as the investments in the new business lines, which focus on "B2B music content platform based on UGC, B2C music consuming service based on music cloud and providing extensive applications through utilization of distribution channels to improve distribution efficiency."

The Group believes that it will successfully complete its transition through its efforts and achieve its sustainable developments by attracting numerous music users and providing service accordingly.

Operations in 2010

As mentioned above, the WVAS policy changes in the second quarter of 2010 brought negative impact to the whole industry, which resulted in the Group's revenue in the second quarter at a trough sequentially. Confronting the changes of policy, the Group intensified marketing activities that brought the revenue's growth in the third quarter and the fourth quarter. The Group's revenue was RMB322 million for the second half of 2010 and RMB682 million for the whole year. Subject to the effect of factors such as investment in new business, the Group recorded net profit of RMB41.80 million or net profit of RMB76.70 million excluding option expenses and additional expense of new business lines this year, with the profit margin at the double digit of 11.2%.

During 2010, the Group's position in the wireless music market was further consolidated: music revenue in 2010 reached RMB357 million, or RMB353 million after deducting the revenue from IVR music which was discontinued due to the policy changes, representing an increase of RMB8.3 million as compared with last year. Accordingly, the Group's market share in the wireless music market was further reinforced with a secured leading position.

In 2010, the Group continued to put more efforts on UGC-Oritened music content. The Fifth Original Music Contest was held through A8.com, during which thousands of original music players participated in the contest, sourcing considerable original songs; and it also strengthened the cooperation with record labels and independent musicians. In 2010, UGC revenue contributed to 41% of the Group's music and music-related revenue.

In April 2010, the Group entered into a cooperation agreement with Nokia, pursuant to which the Group would provide a revolutionary music service called "Comes With Music" to domestic handset users. The cooperation has made good progress. Furthermore, the Group also entered into a cooperation agreement with Lenovo, a well-known domestic handset manufacturer, to provide music service to its handset users. These successful cooperations laid good foundation for future cooperation with more handset manufacturers.

Leveraging on the distribution channels for wireless music, the Group benefited from the development of mobile internet by introducing other application services beyond music through external cooperation. In 2010, the Group's non-music business increased with its contribution to the Group's revenue rising from 37% in 2009 to 48%.

The rapid growth of mobile internet in 2010 supported our previous judgement towards the development trend of the industry. To take advantage of the changes from the competition of content, distribution channel and accumulation of users, the Group completed its strategic tune-up with music as core business in 2010. The Group actively and aggressively deployed resources and tapped into to markets such as mobile internet music, and expedited the deployment in the utilizing direct investment, M&A as well as self-development. For instance, the Group made significant investment in the Music Cloud project and has achieved specific breakthrough. In October 2010, the "Music Cloud Technology" of the Company won the "2010 Digital Media Work Awards" by the International Development Information Network Association (DEVNET) Pavilion of Expo 2010 Shanghai China.

Business Outlook for 2011

According to the Mobile Internet Annual Statistics of China in 2010 issued by iResearch on 25 January 2011, the build up of 3G and WIFI and the emergence of various mobile devices powered a steady increase in the mobile internet market in China, with a market size of RMB20.25 billion (function fees are excluded from music service) which represents a year-on-year growth of 31.1%, while the users scale of mobile internet in China reached 303 million, representing a year-on-year growth of 30.0%. Along with the upsurge of industry segments and renovation from new services, it is expected that the mobile internet market will embrace a strong growth in 2011. As estimated by iResearch, the size of mobile internet market will amount to RMB39.11 billion in 2011, an anticipated increase of 93%. The Group has reasonable grounds to believe that the mobile internet industry in China will move forward steadily in 2011 with the orderly involvement of entities in the industry eco-system, and the business framework deployed by the Group in 2010 will bring benefits in 2011.

As for 2011, the Group will focus on music business which consists of music content, distribution channel and music service rendered to users. The business model of the Group will be refined to provide personalized high quality music service at anytime and anywhere to a broad range of users through various channels by gathering high quality music content from UGC platform and the cooperation with record labels.

The Group aims to be the leading digital music service provider in China. In addition, the Group will provide applications other than music and music related service through cooperation with application developers to utilize the current strong music distribution channels which include the national marketing network, more than 300 handset manufacturers, traditional and new media, etc.

In respect of music content strategy, the Group will continue to hold Original Music Contest and position A8.com as online theme collection platform to gather extraordinary music contents. The Group will also build up a works fostering mechanism to produce music works together with music composers and record labels. Those works will nourish the Music Cloud with music contents and enhance the competitiveness of wireless music constantly.

The Group believes that the future music consumption pattern will be an enormous music collection provided to users through various end-user devices utilizing cloud computing technology and the users will receive personalized smart music services from the system attributed to the distinctions of each user based on mobile internet. After a year of continuous research and development, the Group has made a significant breakthrough in its Music Cloud project. Due to the rapid growth of Music Cloud and its innovative nature compared to traditional business, the Group intends to restructure Music Cloud business to secure its steady and fast growth. In the Group's future plan, the Music Cloud products will cover most of the handset platforms and the terminal of PC, TV, Cars etc. to realize the Music Cloud service based on multi-terminal. Besides, the Group will expand the cooperation with a number of domestic renowned handset manufacturers to lay firm foundation for the continuous growth in the number of users so as to create more values for the shareholders.

In September 2010, I was recognised as "30 Outstanding Figures in 30 Years of Shenzhen Special Economic Zone" , which is not only an honor for me but for the Group. I will endeavor to boost the growth of the Group with the management team to maximize the return to shareholders.

Liu Xiaosong
Chairman

Hong Kong
23 March 2011

Management Discussion and Analysis

Business Review

Revenue and profit attributable to owners of the Company

For the year ended 31 December 2010, the revenue of the Group amounted to approximately RMB681.8 million, representing a slight decrease of approximately 3.6% as compared with 2009 (2009: approximately RMB707.1 million).

As mentioned in the Group's interim report, the implementation of WVAS policy restrictions from mobile operators in the second quarter of 2010 brought negative impact to the whole industry. Following this trend, the Group's revenue in the second quarter reached a trough sequentially. Facing the changes of policy, the Group strengthened the marketing capabilities in traditional wireless business and formed new business structure through re-organization, thus the revenue of the Group in the third quarter and the fourth quarter stably increased by 23% and 16% respectively as compared with the second quarter.

For the year ended 31 December 2010, the profit attributable to the owners of the Company amounted to approximately RMB41.8 million, representing a decrease of approximately 59% as compared with 2009 (2009: approximately RMB102.0 million). Excluding non-operating related share option expenses of approximately RMB13.1 million in 2010 (2009: approximately RMB6.7 million), and the additional expenses for new business development of approximately RMB21.8 million, the adjusted profit attributable to the owners of the Company from core business amounted to approximately RMB76.7 million, representing a decrease of approximately 29% as compared with 2009 (2009: approximately RMB108.7 million).

Cost of services provided

For the year ended 31 December 2010, cost of services provided by the Group amounted to approximately RMB418.6 million, representing a slight decrease of approximately 2% as compared with 2009 (2009: approximately RMB425.7 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 labour costs.

Revenue share with mobile operators was charged from 15% to 60% of the total revenue received from mobile users and it averaged approximately 29.0% of the total revenue for the year ended 31 December 2010, representing a slight increase of 1.4% as compared with 2009 (2009: approximately 27.6%).

Revenue share with business alliances slightly decreased to approximately 29.3% of the total revenue for the year ended 31 December 2010, maintaining at about the same level as compared with 2009 (2009: approximately 29.7%).

Gross profit

For the year ended 31 December 2010, the gross profit of the Group amounted to approximately RMB251.7 million, representing a decrease of approximately 7% as compared with 2009 (2009: approximately RMB270.1 million). The overall gross profit margin of the Group decreased from approximately 38.2% to 36.9%. It was mainly due to the higher revenue share ratio with mobile operators for new business launched in 2010.

Other income and gains

For the year ended 31 December 2010, the other income and gains of the Group were approximately RMB13.8 million, representing an increase of approximately 19% as compared with 2009 (2009: net gain of approximately RMB11.5 million).

This increase was mainly due to the increase of interest income which amounted to approximately RMB8.4 million, decrease of fair value gain on investment at fair value through profit or loss and gain on disposal of investment at fair value through profit or loss which amounted to approximately RMB1.2 million and RMB1.5 million respectively, and it was also due to other decreases of approximately RMB3.5 million.

Selling and marketing expenses

For the year ended 31 December 2010, the selling and marketing expenses of the Group amounted to approximately RMB142.8 million, representing an increase of approximately 27% as compared with 2009, representing 20.9% of total revenue (2009: approximately RMB112.9 million, representing 16.0% of total revenue).

The increase in selling and marketing expenses was mainly due to the newly established business units during the year, which amounted to approximately of RMB21.8 million. Approximately of RMB13.3 million among the additional expenses in new business units was expensed as staff cost and approximately of RMB8.5 million was expensed for related marketing activities and business trips. Excluding the additional expenses in new business units, the adjusted selling and marketing expenses of the Group were approximately of RMB121.0 million, representing 18% of the total revenue.

Administrative expenses

For the year ended 31 December 2010, the administrative expenses of the Group amounted to approximately RMB64.8 million, representing an increase of approximately 29.3% as compared with 2009 (2009: approximately RMB50.1 million).

The increase was mainly due to the increase of the share option expense, back office headcounts and rental and office expenses related to the new business, amounted to approximately RMB6.4 million, RMB5.2 million and RMB3.3 million respectively.

Other expenses

For the year ended 31 December 2010, the other expenses of the Group amounted to approximately RMB10.5 million (2009: approximately RMB0.09 million). The increase was mainly due to the impairment losses which amounted to approximately RMB5.2 million for the accounts receivable for specific individual customers that were in default, and it was also due to the write-off of intangible asset which amounted to approximately RMB3.3 million.

Income tax

The effective tax rate of the Group has been reduced to approximately 10.8% in 2010 (2009: approximately 13.8%). For the year ended 31 December 2010, the income tax expenses of the Group amounted to approximately RMB5.1 million (2009: approximately RMB16.4 million). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 0%, 15%, 22%, 25% for the respective operating subsidiaries of the Group for 2010 (2009: 15%, 20% 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 Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian") and Beijing Tianlai Cultural Broadcasting Co., Ltd. ("Tianlai"), which are subsidiaries of the Company, have been recognised as high technology enterprises in 2010. 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 2010. Besides, Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("Yunhai") was recognized as a software and integrated circuit design corporation, which is entitled to a two-year exemption and a three-and-half-year 50% tax credit for corporate income tax since its profit-making year. Yunhai has confirmed that 2010 was its first profit-making year in which it was charged with a preferential tax rate of 0%.

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2010, 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 RMB436.8 million (2009: approximately RMB402.0 million). Approximately RMB290.1 million, or approximately 74% of the Group's cash and cash equivalents, was denominated in RMB.

As at 31 December 2010, 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 2010, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Non-current Assets

As at 31 December 2010, the total non-current assets of the Group amounted to approximately RMB92.0 million (2009: approximately RMB49.8 million). The increase was mainly due to the increase of the prepayment to an independent third party as development cost of certain parts of the Music Cloud project and the construction cost of A8 building which amounted to approximately RMB27.9 million and RMB8.3 million respectively.

Current Assets and Current Liabilities

As at 31 December 2010, the total current assets of the Group amounted to approximately RMB549.0 million (2009: approximately RMB552.3 million). The decrease was mainly due to the decrease of accounts receivable and the investment at fair value through profit or loss which amounted to approximately RMB38.5 million and RMB25.8 million respectively, which was partly offset by the cash inflow of approximately RMB58.2 million. The turnover days of accounts receivable is 54 days (2009: 57 days).

As at 31 December 2010, the total current liabilities of the Group amounted to approximately RMB117.6 million (2009: approximately RMB116.7 million). The increase was mainly due to the increase of other payables and accruals and deferred income of approximately RMB11.1 million and RMB8.8 million respectively, which was partly offset by the decrease of accounts payable and tax payable of approximately RMB10.9 million and RMB8.1 million respectively.

Cash Flow

Net cash inflow from operating activities of the Group for the year ended 31 December 2010 was approximately RMB85.8 million, resulted from cash generated from operations of approximately RMB103.0 million and tax paid of approximately RMB17.2 million.

Net cash outflow from investing activities of the Group for the year ended 31 December 2010 was approximately RMB9.9 million, resulted from the cash outflow of prepayment for acquisition of intangible assets, purchases of investments at fair value through profit or loss, purchases of property, plant and equipment and additions to construction in progress, acquisition of subsidiaries amounted to approximately RMB27.9 million, RMB16.2 million, RMB11.6 million and RMB7.0 million respectively, and was partly offset by the cash inflow of proceeds from sales of investment at fair value through profit or loss and interest received amounted to approximately RMB41.2 million and RMB 13.4 million respectively.

Net cash outflow from financing activities of the Group for the year ended 31 December 2010 was approximately RMB17.7 million, mainly resulted from cash outflow of the dividend payout which amounted to approximately RMB20.1 million, which was partly offset by cash inflow of proceeds received from the exercise of share options which amounted to approximately RMB5.2 million.

Contingent Liabilities

As at 31 December 2010, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2010, the Group employed 377 employees (2009: 433 employees). However, the average headcounts of year 2010 was 422 while it was 370 in year 2009. The Group determines the remuneration of its employees based on various factors such as responsibilities, qualifications and years of experience. Total employee costs for the year ended 31 December 2010, including directors' emoluments, amounted to approximately RMB61.2 million, representing an increase of approximately 23% as compared with 2009. (2009: approximately RMB49.8 million).

Significant Event

As at 31 December 2010, the Group had no significant event.

Directors and Senior Management

DIRECTORS

Executive Director

Mr. Liu Xiaosong, aged 45, is an executive Director, the Chairman and the Chief Executive Officer (the "CEO") 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 is one of the founders of Tencent Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 00700.HK). 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 was appointed as a Director on 2 October 2007. Mr. Liu is currently responsible for the overall strategic planning and the whole business operation and management of the Group.

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

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

Non-executive Directors

Mr. Li Wei, aged 47, is a non-executive Director. Mr. Li graduated from Peking University in 1985, with a Bachelor's degree in Science. He further obtained a degree of Master of Economics in 1991 and a degree of Executive Master of Business Administration in 2005 from Peking University. He is currently a director of IER Venture Capital Co. Ltd., a Vice President of each of Shenzhen Venture Capital Association, and Shenzhen Angel Investor Club. Mr. Li was appointed as a non-executive Director on 9 November 2007.

Mr. Li is also a director of each of Huadong Feitian and Kuaitonglian, which are subsidiaries of the Company.

Ms. Ho Yip, Betty, aged 42, is a non-executive Director. Ms. Ho graduated from the University of Toronto in 1993, with a Bachelor's degree in Commerce. She was admitted as a member of the American Institute of Certified Public Accountants in 1997 and is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Ho has diversified experience in corporate finance, private equity, retail and operations. Ms. Ho was a director of Strategic Capital Group (HK) Limited, an e-commerce private equity firm, from 2000 to 2001. She held the position of Vice President of Corporate Development from 2001 to 2007 at Lorenzo Jewelry Limited, a wholly owned subsidiary of LJ International, Inc. (NASDAQ: JADE) and was responsible for financial planning, corporate finance, investor relations and matters relating to mergers and acquisitions of the group. She joined the Group in July 2007 as Chief Financial Officer and was appointed as an executive Director on 9 November 2007. On 15 January 2011, Ms. Ho was re-designated as non-executive Director and resigned as Chief Financial Officer of the Company.

Independent non-executive Directors

Mr. Chan Yiu Kwong, aged 46, is an independent non-executive Director. Mr. Chan graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences in 1988. He was admitted as a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants in 1999 and 2005 respectively. From 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 (Stock Code: 00371.HK). From 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 Main Board of the Stock Exchange (Stock Code: 00818.HK). Between 2005 and 2010, Mr. Chan served as an independent non-executive director of Biosino Bio-Technology and Science Incorporation, a company listed on the Growth Enterprises Market of the Stock Exchange (Stock Code: 08247.HK). Mr. Chan currently serves as joint company secretary of Hi Sun and company secretary of Pax Global Technology Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 00327.HK). He has years of diversified experience in auditing, business advisory and corporate management. He was appointed as an independent non-executive Director on 9 November 2007.

Mr. Hui, Harry Chi, aged 47, is an independent non-executive Director. Mr. Hui obtained a Master of Business Administration degree in 1992 from the University of Southern California. Mr. Hui has years of diversified 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 and 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. From January 2007 to June 2010, Mr. Hui has been the Chief Marketing Officer for China Beverages Business Unit of Pepsico International. He was appointed as an independent non-executive Director on 9 November 2007.

Mr. Zeng Liqing, aged 41, is an independent non-executive Director. Mr. Zeng graduated from Xi'an University of Electronic Science and Technology in 1993 with a bachelor's degree in Computer Communication. He has years of diversified working experience and has good knowledge of the Internet and Telecom Industry in China. He was one of the five founders of Tencent Holdings Limited ("Tencent"), a listed company on the Main Board of The Stock Exchange (Stock code: 00700.HK). 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 on 23 October 2009.

SENIOR MANAGEMENT OF THE GROUP

Mr. Lu Bin, aged 42, is the Chief Financial Officer of the Group. Mr. Lu graduated from Tsinghua University in 1992 with a Bachelor's degree in Engineering. In 2000, he obtained a degree of Master of Business Administration in Corporate Finance from The Ohio State University with the honor of excellent graduate. He studied Accounting at The Ohio State University in 2007. Mr. Lu has worked with Anaren, Inc (Nasdaq: ANEN) as Division Chief Financial Officer and Controller, and has worked as Partner for Janney & Lee Investment LLC.. He also held various finance management positions at China Network Communication Co., Ltd. (which has been acquired by China Unicom), Dell Inc. (Nasdaq: Dell) and China International Trust and Investment Corporation (currently known as CITIC Group). Mr. Lu has over 17 years' experience in strategic planning of corporate finance, finance management, equity investment, etc., and over 9 years' diversified working experience and in-depth understanding in the telecommunication and internet industries. Mr. Lu jointed the Group in February 2011 as Chief Financial Officer.

Mr. Jimmy Jian-Ping Shi, aged 45, is the Chief Technology Officer of the Group. Mr. Shi 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 years of diversified experience in leadership and R&D of commercial software in world-class software companies and over the past six 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 the 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. Mr. Shi joined the Group in March 2007 as Chief Technology Officer.

Mr. Su Wei, aged 36, is the vice president of the Group. He graduated from the Shanghai University of Finance and Economics with a Bachelor's degree in finance in 1998 and he obtained a MBA from Donghua University in 2005. He has worked for Shanda Interactive Entertainment Ltd (NASDAQ: SNDA) and various companies and has extensive experience and knowledge in the investment as well as mergers and acquisitions of internet and cultural creativeness industry. Mr. Su joined the Group in March 2010 and he is now responsible for the Group's strategy and investment.

Mr. Wei Kun, aged 36, is the vice president of the Group. He graduated from the Kunming University of Science and Technology in 1996. He has held positions as sales management officer in Newplam (China) Information Technology Co., Ltd which acquired by China.com Inc. (a listed company on the Growth Enterprise Market of The Stock Exchange with Stock Code: 8006) in 2003 and other listed companies. He joined the Group in October 2003 and he is now responsible for the wireless business 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 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 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 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 40 to 108.

No interim dividend was declared for the six months ended 30 June 2010 and the Board does not recommend the payment of final dividend for the year ended 31 December 2010.

FINANCIAL SUMMARY AND HIGHLIGHT

A summary of the published results, assets, liabilities and non-controlling 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 3. 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 2010 are set out in note 13 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 2010 are set out in notes 26 and 27 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

TAX RELIEF AND EXEMPTION

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

ISSUE OF SHARES

During the year of 2010, the Company issued 5,652,580 new shares (a) upon the exercise of the shares options granted under the Pre-IPO Share Option Scheme to subscribe for 1,812,500 shares at a weighted average issue price of HK$0.57 per share and (b) the share options granted under Share Option Scheme to subscribe for 3,840,080 shares at a weighted average issue price of HK$2.60 per share. The gross consideration of the exercised share options granted under the Pre-IPO Share Option Scheme and the Share Option Scheme were HK$1,041,290 and HK$9,988,001 respectively.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year of 2010, based on the Company's instruction, Law Debenture Trust (Asia) Limited, the trustee (the "Trustee") appointed by the Company for the share award scheme (the "Scheme") adopted by the Company on 16 August 2010, has purchased 300,000 shares, 600,000 shares and 106,000 shares on 30 September 2010, 4 October 2010 and 16 November 2010 respectively from the market for the purpose of the Scheme, the aggregate price paid by the Company were HK$945,380, HK$1,906,037 and HK$329,282 respectively.

Save as disclosed above, 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 2010 are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Group's retained profits and share premium account amounting to approximately RMB242,339,000 and RMB183,661,000 respectively. It provides a total of approximately RMB426,000,000 to be available for distribution.

As at 31 December 2010, the Company's reserves available for distribution amounted to approximately RMB205,586,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, revenues from the five largest customers of the Group accounted for approximately 66% of the Group's total revenues while revenues from the largest customer for the Group accounted for approximately 45% of the Group's total revenues. In addition, for the year ended 31 December 2010, 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

The Directors during the year and up to the date of this report were:

Executive Directors:
Mr. Liu Xiaosong
Ms. Ho Yip, Betty (re-designated as non-executive Director on 15 January 2011)
Mr. Lin Yizhong (resigned on 9 November 2010)

Non-executive Directors:
Mr. Li Wei
Ms. Ho Yip, Betty (re-designated from executive Director on 15 January 2011)

Independent non-executive Directors:
Mr. Hui, Harry Chi
Mr. Chan Yiu Kwong
Mr. Zeng Liqing

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 10 to 12 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 12 June 2008 except that Mr. Zeng Liqing's contract commenced from 23 October 2009, and Ms. Ho Yip, Betty's appointment letter commenced from 15 January 2011, 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 Directors, not less than one month's notice in writing by the non-executive Director or the written notice issued by the Company with immediate effect.

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

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings 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 34 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 2010.

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 2010.

Save as disclosed in note 34 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 shareholders (as defined in the Listing Rules) of the Company or any of its subsidiaries.

Save as disclosed in note 34 to the financial statements, no contract of significance for the provision of services to the Group by the controlling shareholders 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 2010, the Directors and chief executives of the Company and their associates had the following interests in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong) ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules and the Company's own code of conduct regarding Directors' dealings in the Company's securities ("Own Code"):

Long positions in shares of the Company

		Number of shares		
Name of Director	**Nature of interest**	**Ordinary shares**	**Underlying Shares (under equity Derivatives of the Company)**	**Approximate percentage of interest in the Company's issued share capital**
Mr. Liu Xiaosong	Founder of trust[1]	159,565,954	Nil	34.43%
	Personal	1,922,000	455,441[3]	0.51%
Mr. Li Wei	Family[2]	22,601,756	Nil	4.88%
Ms. Ho Yip, Betty	Personal	Nil	1,308,000[3]	0.28%

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 2010, 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 Jingtao ("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%

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.

Save as disclosed above, as at 31 December 2010, none of the Directors or chief executives of the Company had or was deemed to have any interest or short position in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code and Own Code.

SHARE OPTION SCHEMES

On 26 May 2008, the shareholders of the Company adopted two share option schemes for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. Further details of the share option schemes are disclosed in note 27 to the financial statements.

The following table discloses movements in the Company's share options outstanding under 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 2010	Exercised during the year	Lapsed/ Forfeited during the year	At 31 December 2010	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	203,920	(142,960)	–	60,960	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	3,331,420	(1,669,540)	(582,900)	1,078,980	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	3,535,340	(1,812,500)	(582,900)	1,139,940				

No share options granted under the Pre-IPO Share Option Scheme were cancelled during the year ended 31 December 2010.

During the year ended 31 December 2010, 1,812,500 share options granted under the Pre-IPO Share Option Scheme were exercised and 582,900 share options lapsed following resignation of the relevant employees.

As at the date of this annual report, there were 498,420 outstanding share options granted under the Pre-IPO Share Option Scheme, representing an aggregate of approximately 0.11% of the issued share capital of the Company as at the date of this annual report. All such share options were accepted by the relevant employees or eligible persons with a nominal consideration of HK$1.00. No further share option will be granted under the Pre-IPO Share Option Scheme and all share options granted under this scheme must be exercised on or before 21 May 2012. The exercise prices of the share options granted under this scheme were determined based on different valuations of the Company. For further information of the Pre-IPO Share Option Scheme, please refer to note 27 to the financial statements.

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

	Number of share options									
Name/category of participants	**At 1 January 2010**	**Exercised during the period**	**Granted during the period**	**Lapsed/ forfeited during the period**	**At 31 December 2010**	**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 every 12-month period starting from 5 October 2010	5 October 2014	3.168	2.98
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 every 12-month period starting from 21 September 2010	21 September 2014	3.63	3.63
	1,308,000	–	–	–	1,308,000					
Mr. Lin Yizhong ("Mr. Lin") (resigned on 9 November 2010)	3,303,960	(1,101,320)*	–	–	2,202,640	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
Senior Management of the Group	4,555,665	(846,000)	–	(3,709,665)	–	5 October 2009	one-fourth of the share options granted will be vested every 12-month period starting from 1 July 2010	5 October 2014	3.168	2.98
Other employees and eligible persons	10,009,200	(1,653,800)	–	(2,431,000)	5,924,400	5 October 2009	one-fourth of the share options granted will be vested every 12-month period starting from 1 July 2010	5 October 2014	3.168	2.98
Other employees and eligible persons	3,088,000	(238,960)	–	–	2,849,040	24 December 2009	Minimum of 2 years and maximum of 4 years	24 December 2014	3.2	3.13
In aggregate	22,720,266	(3,840,080)	–	(6,140,665)	12,739,521					

* 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$3.18.

During the year ended 31 December 2010, no share options were granted under the Share Option Scheme and no share options granted under the Share Option Scheme was cancelled.

3,840,080 and 6,140,665 share options granted under the Share Option Scheme were exercised and lapsed respectively during the year ended 31 December 2010.

As at the date of this annual report, there were 5,439,146 outstanding share options under the Share Option Scheme, representing an aggregate of approximately 1.17% 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 27 to the financial statements.

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

SHARE AWARD SCHEME

The Board has approved the adoption of the share award scheme ("Scheme") on 16 August 2010 ("Adoption Date"). The Scheme will operate in parallel with the Company's Pre-IPO Share Option Scheme and the Share Option Scheme both adopted on 26 May 2008.

Awardees under the Scheme can be any eligible employee. The purposes of the Scheme are to recognise the performance of eligible employees within the Group and to retain them for the continued operation and development of the Group.

Shares may be awarded to eligible employees who are connected persons of the Company. If shares are awarded to connected persons of the Company, those awards may constitute connected transactions under Chapter 14A of the Listing Rules and where they do the Company will comply with the relevant requirements under the Listing Rules. If the grant of an award to a Director of the Company under the Scheme will form part of the remuneration of the relevant Director under his service contract, this grant will be exempted from the reporting, announcement and independent shareholders' approval requirements under Listing Rule 14A.31(6). However, any grant to any Director or senior management of the Company must first be approved by the Remuneration Committee.

The Scheme involves both existing and new shares. The Trustee can use the money lent to it by the Company to buy shares for future years and in advance of the actual year in respect of which the Company can make awards under the Scheme. Under the Scheme, the Company may also instruct its broker to purchase existing shares from the market, settle payment and costs and deliver the same to the Trustee to hold on trust for the Awardees. The Company may also allot and issue new shares to the Trustee to hold on trust for the Awardees.

The Scheme terminates on the earlier of (if not extended) the 10th anniversary of the Adoption Date or such date of early termination as decided by the Board.

During the year ended 31 December 2010, 1,006,000 shares were purchased and held by the Trustee, representing approximately 0.218% of the issued share capital of the Company as at the Adoption Date.

During the year ended 31 December 2010, the Company has awarded 2,014,000 shares on 11 October 2010 to Mr. Lin, who was then an executive Director as well as the CEO of the Company, representing approximately 0.437% of the total issued share capital of the Company as at the Adoption Date. The grant of award shares to Mr. Lin was exempt from independent shareholders' approval requirements under Rule 14A.31(6) of the Listing Rules as it forms part of the remuneration of Mr. Lin under his service contract.

During the year ended 31 December 2010, 900,000 award shares have been released to Mr. Lin at no cost as part of the vesting conditions specified by the Board at the time of making the award had been satisfied.

Further details of the Scheme are disclosed in note 28 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2010, 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	39.09%
River Road	Corporate[i]	159,565,954	34.43%
Knight Bridge	Corporate[i]	159,565,954	34.43%
Ever Novel	Corporate[ii]	122,371,905	26.41%
	Beneficial Owner[ii]	37,194,049	8.03%
Prime Century	Beneficial Owner[ii]	122,371,905	26.41%

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 2010, 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 meetings of Prime Century and was deemed to be interested in the 122,371,905 shares in the Company held directly by Prime Century.

Save as disclosed above, as at 31 December 2010, 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 of the Company dated 28 May 2008 (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, the previous executive Director of the Company who resigned on 9 November 2010;

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

4. 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 constitute continuing connected transactions of the Company, the Company has 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 licence to Cash River in respect of its registered trademarks or trademarks being applied for registration (the "Licenced 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 Licenced Trademark is valid for the effective period (including the renewal period) of that particular Licenced Trademark, provided that the Trademark Licence Agreement is not terminated in accordance with its terms and conditions.

Domain Name Licence Agreement

Cash River entered into the domain name licence agreement on 20 September 2004 ("Domain Name Licence 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 "Licenced Domain Name") at RMB1.00 or at the lowest amount permitted by the PRC laws.

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

Directors' Report

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.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

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-competition dated 26 May 2008 (the "Deed of Non-competition") 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-competition 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-competition.

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-competition.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 38 to the financial statements.

AUDIT COMMITTEE

The Audit Committee of the Company 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 2010.

AUDITORS

The financial statements for the year ended 31 December 2010 have been audited by the Company's auditors, Ernst & Young, who will retire in the forthcoming annual general meeting. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

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
23 March 2011

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. The Group is 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 the business of the Group.

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

The CG Code 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 2010, the Company has complied with the code provisions as set out in the CG Code, except for the deviation from code provision A.2.1.

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 CEO 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 CEO and the senior management to discharge its responsibilities.

Board Composition

The Board currently comprises 6 members, consisting of 1 executive Director, 2 non-executive Directors 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 2 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 2010, 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.

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 independent 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 three month's written notice.

Each of the non-executive Directors is appointed for a specific term of three years and could be re-appointed on each annual general meeting during such term of service. The appointment may be terminated by not less than one month's written notice by the Director or the written notice issued by the Company with immediate effect.

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 2011 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 2010, 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 2010 are set out below:

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

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. Lin Yizhong has resigned as executive Director of the Company on 9 November 2010.

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 in the CG Code stipulates that the roles of Chairman and CEO should be separate and should not be performed by the same individual.

Mr. Lin has taken the role of CEO for the period from 24 May 2010 till 8 November 2010 during which the roles of Chairman and CEO were segregated and was performed by different individuals – Mr. Liu Xiaosong ("Mr. Liu") and Mr. Lin respectively. Thus the Company complied with the Code provision A.2.1 by establishing clearly the division of responsibilities between the Chairman and the CEO in writing.

Before Mr.Lin's appointment as CEO on 24 May 2010 and upon Mr. Lin's resignation as CEO on 9 November 2010 and during the two periods from 1 January 2010 till 23 May 2010 and from 9 November 2010 till 31 December 2010, Mr. Liu had the dual roles of Chairman and CEO of the Company. Therefore, the Company did not comply with the Code Provision A.2.1. The Board considered that Mr. Liu, the Chairman and CEO of the Company, is able to lead the Board in making better business decision for the group as Mr. Liu has diversified experience in the technology, media and telecommunication industry and has been being responsible for overall management and strategic planning of the Group. Therefore, Mr. Liu has had the dual roles of the Chairman and CEO of the Company despite deviation from code provision A.2.1 during the mentioned two periods in the year of 2010.

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 2.

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, and Mr. Zeng Liqing. 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 2010, one meeting was held by the Remuneration Committee on 11 October 2010 for considering and approving grant of awarded shares to Mr. Lin Yizhong pursuant to the share award scheme adopted by the Board on 16 August 2010.

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	1/1
Mr. Zeng Liqing	1/1

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Yiu Kwong (Chairman), Mr. Hui, Harry Chi, and Mr. Zeng Liqing (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 four meetings during the year ended 31 December 2010 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)*	4/4
Mr. Hui, Harry Chi	4/4
Mr. Zeng Liqing	4/4

The Company's annual results for the year ended 31 December 2010 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.

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 2010.

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 2010.

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 38 to 39.

During the year ended 31 December 2010, the remuneration paid to the Company's external auditors, Ernst & Young, is set out below:

Category of services	**Fee paid/payable** *(RMB'000)*
Audit services	1,176
Non-audit services	
– other services	43
Total	1,219

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.

INDEPENDENT AUDITORS' REPORT

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 consolidated financial statements of A8 Digital Music Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 40 to 108, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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
23 March 2011

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE		681,839	707,148
Business tax		(11,493)	(11,292)
Net revenue	6	670,346	695,856
Cost of services provided		(418,573)	(425,723)
Gross profit		251,773	270,133
Other income and gains, net	6	13,758	11,543
Selling and marketing expenses		(142,768)	(112,852)
Administrative expenses		(64,801)	(50,145)
Other expenses		(10,529)	(87)
PROFIT BEFORE TAX	7	47,433	118,592
Income tax expense	9	(5,115)	(16,423)
PROFIT FOR THE YEAR		42,318	102,169
Attributable to:			
Owners of the Company		41,765	102,008
Non-controlling interests		553	161
		42,318	102,169
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12		
Basic (RMB per share)		0.09	0.23
Diluted (RMB per share)		0.09	0.22

Details of the dividends payable and proposed for the year are disclosed in note 11 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
PROFIT FOR THE YEAR	**42,318**	102,169
OTHER COMPREHENSIVE INCOME		
Exchange realignment	**477**	(194)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**42,795**	101,975
Attributable to:		
Owners of the Company	**42,242**	101,814
Non-controlling interests	**553**	161
	42,795	101,975

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	14,682	6,379
Prepaid land lease payments	14	27,411	27,997
Goodwill	15	3,710	–
Prepayment for acquisition of intangible asset	16	27,912	–
Intangible assets	17	13,254	13,652
Deferred tax assets	25	5,068	1,803
Total non-current assets		92,037	49,831
CURRENT ASSETS			
Accounts receivable	19	83,389	121,926
Prepayments, deposits and other receivables	20	28,843	28,409
Investments at fair value through profit or loss	21	19,374	45,134
Time deposits with original maturity of more than three months		24,849	23,020
Cash and cash equivalents	22	392,540	333,801
Total current assets		548,995	552,290
CURRENT LIABILITIES			
Accounts payable	23	43,722	54,653
Other payables and accruals	24	53,177	42,036
Tax payable		10,737	18,793
Deferred income		9,975	1,200
Total current liabilities		117,611	116,682
NET CURRENT ASSETS		431,384	435,608
TOTAL ASSETS LESS CURRENT LIABILITIES		523,421	485,439
NON-CURRENT LIABILITIES			
Deferred tax liabilities	25	1,903	2,661
Total non-current liabilities		1,903	2,661
Net assets		521,518	482,778

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	26	4,095	4,045
Reserves	29(a)	516,597	457,782
Proposed final dividends	11	–	20,140
		520,692	481,967
Non-controlling interests		826	811
Total equity		521,518	482,778

Liu Xiaosong
Director

Ho Yip, Betty
Non-executive Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the Company														
	Issued capital RMB'000 (note 26)	Share premium account RMB'000 (note 26)	Shares held under share award scheme RMB'000 (note 28)	Merger reserve RMB'000 (note 29(a))	Surplus contributions RMB'000 (note 29(a))	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note 29(a))	Reserve fund RMB'000 (note 29(a))	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009	3,944	181,562	–	29,135	10,522	7,089	2,379	9,769	13,102	4,422	103,212	–	365,136	650	365,786
Profit for the year	–	–	–	–	–	–	–	–	–	–	102,008	–	102,008	161	102,169
Other comprehensive income for the year:															
Exchange realignment	–	–	–	–	–	–	(194)	–	–	–	–	–	(194)	–	(194)
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 11)	–	(20,140)	–	–	–	–	–	–	–	–	–	20,140	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	–	3,947	–	(3,947)	–	–	–	–
At 31 December 2009 and 1 January 2010	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
Profit for the year	–	–	–	–	–	–	–	–	–	–	41,765	–	41,765	553	42,318
Other comprehensive income for the year:															
Exchange realignment	–	–	–	–	–	–	477	–	–	–	–	–	477	–	477
Total comprehensive income for the year	–	–	–	–	–	–	477	–	–	–	41,765	–	42,242	553	42,795
2009 dividend declared	–	–	–	–	–	–	–	–	–	–	–	(20,140)	(20,140)	–	(20,140)
Acquisition of non-controlling interests	–	–	–	–	–	–	–	1,064	–	–	–	–	1,064	(1,064)	–
Acquisition of a subsidiary (note 30(a))	–	–	–	–	–	–	–	–	–	–	–	–	–	526	526
Exercise of share options	50	9,461	–	–	–	(4,313)	–	–	–	–	–	–	5,198	–	5,198
Equity-settled share-based payment arrangements	–	–	–	–	–	13,069	–	–	–	–	–	–	13,069	–	13,069
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	–	(1,005)	–	–	–	–	1,005	–	–	–	–
Employee share award scheme:															
– shares purchased for share award scheme	–	–	(2,708)	–	–	–	–	–	–	–	–	–	(2,708)	–	(2,708)
– release of award shares	–	–	2,428	–	–	(2,428)	–	–	–	–	–	–	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	–	1,704	–	(1,704)	–	–	–	–
At 31 December 2010	4,095	183,661*	(280) *	29,135*	10,522*	14,550*	2,662*	10,833*	18,753*	4,422*	242,339*	–	520,692	826	521,518

* These reserve accounts comprise the consolidated reserves of RMB516,597,000 (2009: RMB457,782,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		47,433	118,592
Adjustments for:			
Depreciation	7	2,399	2,855
Amortisation of prepaid land lease payments	7	586	586
Amortisation of intangible assets	7	2,556	939
Loss on disposal of items of property, plant and equipment	7	–	388
Gain on disposal of investments at fair value through profit or loss	6	–	(1,468)
Fair value loss/(gain) on investments at fair value through profit or loss	6, 7	827	(1,181)
Interest income	6	(13,401)	(5,095)
Accounts receivable written off as uncollectible	7	808	–
Impairment of accounts receivable	7	5,216	–
Write-off of intangible assets	7	3,312	–
Equity-settled share option expenses	7	8,100	6,650
Equity-settled share award expenses	7	4,969	–
Gain on bargain purchase	6	–	(265)
		62,805	122,001
Decrease/(increase) in accounts receivable		33,168	(18,576)
Increase in prepayments, deposits and other receivables		(404)	(8,369)
Decrease in accounts payable		(10,931)	(3,966)
Increase in other payables and accruals		9,641	337
Increase/(decrease) in deferred income		8,775	(2,800)
Cash generated from operations		103,054	88,627
Tax paid		(17,231)	(5,076)
Net cash flows from operating activities		85,823	83,551

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Net cash flows from operating activities		85,823	83,551
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	30	(6,971)	(3,267)
Purchases of items of property, plant and equipment	13	(11,568)	(3,190)
Proceeds from disposal of items of property, plant and equipment		912	23
Purchases of intangible assets	17	(877)	(8,671)
Prepayment for acquisition of intangible asset		(27,912)	–
Purchase of investments at fair value through profit or loss		(16,244)	(88,014)
Proceeds from sale of investments at fair value through profit or loss		41,177	47,478
Interest received		13,401	5,095
Increase in short term time deposits with original maturity of more than three months		(1,829)	(23,020)
Net cash flows used in investing activities		(9,911)	(73,566)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		5,198	8,367
Purchase of award shares		(2,708)	–
Dividend paid		(20,140)	–
Net cash flows from/(used in) financing activities		(17,650)	8,367
NET INCREASE IN CASH AND CASH EQUIVALENTS		58,262	18,352
Cash and cash equivalents at beginning of year		333,801	315,643
Effect of foreign exchange rate changes, net		477	(194)
CASH AND CASH EQUIVALENTS AT END OF YEAR		392,540	333,801
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	187,621	126,218
Time deposits with original maturity of less than three months when acquired		204,919	207,583
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		392,540	333,801

Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	88,525	80,033
Contribution to share award trust	18(b)	2,620	–
		91,145	80,033
CURRENT ASSETS			
Other receivables		34	422
Amounts due from subsidiaries	18	29,376	12,372
Investments at fair value through profit or loss	21	–	34,004
Cash and cash equivalents	22	98,949	96,380
Total current assets		128,359	143,178
CURRENT LIABILITIES			
Amount due to a subsidiary	18	–	2,097
Other payables and accruals		430	1,202
Total current liabilities		430	3,299
NET CURRENT ASSETS		127,929	139,879
Net assets		219,074	219,912
EQUITY			
Issued capital	26	4,095	4,045
Reserves	29(b)	214,979	195,727
Proposed final dividends	11	–	20,140
Total equity		219,074	219,912

Liu Xiaosong
Director

Ho Yip, Betty
Non-executive Director

Notes to Financial Statements

31 December 2010

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 providing mobile value-added services, focusing on music and culture related content through mobile phones 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.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group losses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2. BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

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.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments 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*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised) and amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009* (Revised in December 2009), the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(a) IFRS 3 (Revised) *Business Combinations* and IFRS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IFRS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 The *Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. 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:

- IAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases*: Removes the specific guidance on classifying land as lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

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 Amendments	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
IFRS 9	*Financial Instruments* [6]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
IAS 24 (Revised)	*Related Party Disclosures* [3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

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

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IFRS 3 *Business Combinations*: Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

    In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

    The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) IAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) IAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity who's 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.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquire is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those unites or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

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

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Impairment of non-financial assets

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

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

An assessment is made at 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, 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)

Property, plant and equipment and depreciation (continued)

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 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.

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 by 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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; and option pricing models.

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 other expenses in 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 and other payables.

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.

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3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

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.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in equity.

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.

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 goodwill or 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, 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, 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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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.

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 credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or 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 RMB, 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 ("HK$"). 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.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of the Company and the subsidiary are translated into RMB 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, the share option scheme and a share award scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

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.

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Equity compensation benefits (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, 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 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) Judgement

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

Accounting for companies governed under contractual arrangements as subsidiaries

As further detailed in note 18(a) below, A8 Music Group Limited does not have equity ownership in Shenzhen Huadong Feitian Network Development Co., Ltd., Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd., Fuzhou Zhuolong Tianxun Information Technology Ltd., Jiangsu Guangshi Science and Trade Development Limited, Shenzhen Kuaitonglian Technology Co., Ltd. and Beijing Zhangzhong Didai Information Technology 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(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.

(b) *Recognition of share-based compensation expenses under share award scheme*

As detailed in note 28 below, the Company has granted shares to a director of the Company in respect of his services to the Group under share award scheme. The directors have used an external valuer who has applied the Black-Scholes Put Formula to determine the fair value of the restricted shares granted, which has been fully expensed during the year as the restricted shares were vested on the same day as the grant date. Significant estimation of the parameters in applying the Black-Scholes Put Formula, such as the risk-free interest rate, dividend and historical volatility, is required to be made.

The fair value of restricted shares granted during the year ended 31 December 2010, which are recognised as share-based compensation, determined using the Black-Scholes Put Formula was approximately RMB4,969,000.

5. OPERATING SEGMENT INFORMATION

The Directors consider that the Group's activities constitute one operating segment as the Group is principally engaged in providing mobile value-added services, focusing on music and culture 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 RMB302,978,000 (2009: RMB312,875,000) and RMB54,532,000 (2009: RMB77,828,000) respectively were derived from providing mobile value-added services through mobile phones 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:

	2010 RMB'000	2009 RMB'000
Revenue		
Ringtone services	81,928	99,684
Ringback tone services	238,878	204,502
Interactive voice response music	3,234	102,232
Other music related services	32,617	40,901
Non-music related services	325,182	259,829
	681,839	707,148
Less: Business tax	(11,493)	(11,292)
Net revenue	670,346	695,856
Other income and gains, net		
Interest income	13,401	5,095
Gain on disposal of investments at fair value through profit or loss	–	1,468
Fair value gain on investments at fair value through profit or loss	–	1,181
Gain on bargain purchase	–	265
Others	–	3,506
Exchange gain	357	28
	13,758	11,543

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31 December 2010

7. PROFIT BEFORE TAX

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

	2010 RMB'000	2009 RMB'000
Depreciation	2,399	2,855
Amortisation of intangible assets #	2,556	939
Amortisation of prepaid land lease payments #	586	586
Operating lease rentals in respect of office buildings	7,438	4,808
Auditors' remuneration	1,176	1,014
Employee benefit expense (including directors' remuneration (note 8)):		
Wages, salaries and bonuses	51,863	41,441
Welfare, medical and other expenses	3,037	2,995
Contributions to social security plans	6,333	5,386
Equity-settled share option expense	8,100	6,650
Equity-settled share award expense	4,969	–
	74,302	56,472
Write-off intangible assets**	3,312	–
Impairment of accounts receivable**	5,216	–
Accounts receivable written off as uncollectible**	808	–
Loss on disposal of items of property, plant and equipment	–	388
Mobile and Telecom Charges*	199,039	195,108
Fair value (gain)/loss on investments at fair value through profit or loss	827	(1,181)

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

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

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

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

	2010 RMB'000	2009 RMB'000
Fees	220	219
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	3,369	3,836
Share-based payment	6,475	1,545
Pension scheme contributions	66	71
	9,910	5,452
	10,130	5,671

During the year, a director was granted shares, in respect of his service to the Group, under the share award scheme of the Company. The fair value of such award shares which has been fully recognised in the income statement, 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 years, 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 27 and note 28 to the financial statements.

(i) Independent non-executive Directors

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

2010	Fees RMB'000	Bonuses RMB'000	Total remuneration RMB'000
Independent non-executive Directors:			
Mr. Hui, Harry Chi	44	–	44
Mr. Chan Yiu Kong	132	–	132
Mr. Zeng Liqing	44	–	44
	220	–	220

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' remuneration (continued)

(i) Independent non-executive Directors (continued)

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

There were no other emoluments payable to the independent non-executive Directors during the year (2009: Nil).

(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	Equity-share award expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2010						
Executive Directors:						
Mr. Liu Xiaosong ("Mr. Liu")	–	1,037	227	–	28	1,292
Ms. Ho Yip, Betty*	–	1,677	958	–	10	2,645
Mr. Lin Yizhong#	–	655	321	4,969	28	5,973
	–	3,369	1,506	4,969	66	9,910
Non-executive Director:						
Mr. Li Wei	–	–	–	–	–	–
	–	3,369	1,506	4,969	66	9,910

* Re-designated as non-executive Director with effect from 15 January 2011.

\# Resigned on 9 November 2010.

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(a) Directors' remuneration (continued)

(ii) Executive Directors and non-executive Directors (continued)

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Equity-share award expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2009						
Executive Directors:						
Mr. Liu Xiaosong	–	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

(b) Five highest paid individuals

The five highest paid individuals included three (2009: three) directors, details of whose remuneration are set as above. Details of the remuneration of the remaining two (2009: two) non-director, highest paid individuals for the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, bonuses, allowances and benefits in kind	**962**	1,080
Equity-settled share option expense	**629**	1,219
Pension scheme contributions	**38**	32
	1,629	2,331

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS (continued)

(b) Five highest paid individuals (continued)

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

	Number of employees	
	2010	2009
Nil to RMB1,000,000	**1**	1
RMB1,000,001 to RMB2,000,000	**1**	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.

9. INCOME TAX EXPENSE

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 (2009: 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:

	2010	2009
	RMB'000	RMB'000
Group		
Current – PRC		
Charge for the year	**9,138**	12,783
Deferred (note 25)	**(4,023)**	3,640
Total tax charge for the year	**5,115**	16,423

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.

9. INCOME TAX EXPENSE (continued)

Cash River was established and operate at the Shenzhen Special Economic Zone of the PRC, accordingly, it was subject to income tax at a rate of 22% for the year ended 31 December 2010.

Beijing Aiyue Cultural Broadcasting Co., Ltd. ("Aiyue"), Beijing Yuesheng Feiyang Music Cultural Broadcasting Co., Ltd. ("Yuesheng Feiyang"), Beijing Tianlai Cultural Broadcasting Co., Ltd. ("Tianlai"), Shenzhen Huadong Feitian Technology Co., Ltd. ("Huadong Feitian") and Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian") were subject to a preferential tax rate of 15% as each of them was recognised as a high technology enterprise for the year ended 31 December 2010.

Shenzhen Yunhai Qingtain Cultural Broadcasting Co. Ltd. ("Yunhai Qingtian") was recognised as a newly set-up software production enterprise in 2010 and is therefore entitled to a full exemption from income tax for two years starting from the first profitable year which was the year ended 31 December 2010 and a 50% tax relief for the three years thereafter.

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 as follows:

	2010					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(602)		48,035		47,433	
Tax calculated at the statutory tax rate	(99)	16.5	12,008	25.0	11,909	25.1
Preferential tax rates	–	–	(9,656)	(20.1)	(9,656)	(20.3)
Super-deduction of research and development expenditure	–	–	(600)	(1.2)	(600)	(1.3)
Income not subject to tax	(1,067)	177.2	(26)	(0.1)	(1,093)	(2.3)
Expenses not deductible for tax purposes	1,166	(193.7)	1,145	2.4	2,311	4.9
Tax losses not recognised	–	–	2,244	4.6	2,244	4.7
Tax charge at the Group's effective rate	–	–	5,115	10.6	5,115	10.8

9. INCOME TAX EXPENSE (continued)

	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

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year ended 31 December 2010 includes a profit of RMB39,000 (2009: RMB949,000) which has been dealt with in the financial statements of the Company (note 29(b)).

11. DIVIDENDS

	2010	2009
	RMB'000	RMB'000
Proposed final – Nil (2009: HK5 cents) per ordinary share	**–**	20,140

12. 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 2010 is based on the profit for the year attributable to equity holders of the Company of RMB41,765,000 (2009: RMB102,008,000) and the weighted average number of ordinary shares in issue less shares held under share award scheme during the year ended 31 December 2010 of 460,192,000 (2009: 451,696,000).

The calculation of diluted earnings per share for the year ended 31 December 2010 is based on the profit for the year attributable to equity holders of the Company of RMB41,765,000 (2009: RMB102,008,000) as used in the basic earnings per share calculation.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY (continued)

The weighted average number of ordinary shares used in the calculation is the 460,192,000 (2009: 451,696,000) ordinary shares in issue less shares held under share award scheme during the year, as used in the basic earnings per share calculation, and the weighted average of 7,211,000 (2009: 8,598,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares and the effect of awarded shares.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010						
At 31 December 2009 and at January 2010:						
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
At 1 January 2010, net of accumulated depreciation	5,571	248	369	191	–	6,379
Additions	2,801	297	–	219	8,251	11,568
Acquisition of subsidiaries (note 30)	–	46	–	–	–	46
Disposals	(795)	(117)	–	–	–	(912)
Depreciation provided during the year	(1,693)	(267)	(256)	(183)	–	(2,399)
At 31 December 2010, net of accumulated depreciation	5,884	207	113	227	8,251	14,682
At 31 December 2010:						
Cost	12,576	1,983	2,094	4,029	8,251	28,933
Accumulated depreciation	(6,692)	(1,776)	(1,981)	(3,802)	–	(14,251)
Net carrying amount	5,884	207	113	227	8,251	14,682

13. 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	Construction in progress 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 30)	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. PREPAID LAND LEASE PAYMENTS

	Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount at 1 January	**28,582**	29,168
Recognised during the year	**(586)**	(586)
Carrying amount at 31 December	**27,996**	28,582
Current portion included in prepayments, deposits and other receivables (note 20)	**(585)**	(585)
Non-current portion	**27,411**	27,997

The leasehold land is situated in Mainland China and is held under a long term lease.

15. GOODWILL

Group	RMB'000
Cost at 1 January 2010, net of accumulated impairment	–
Acquisition of subsidiaries (note 30)	3,710
Cost and net carrying amount at 31 December 2010	3,710

16. PREPAYMENT FOR ACQUISITION OF INTANGIBLE ASSET

As at 31 December 2010, the prepayment for acquisition of intangible asset amounting to approximately RMB27,912,000 represented a prepayment to an independent third party as development cost of certain parts of the Music Cloud project, a multi-functional system for consumers to access music products anywhere and anytime through diversified platforms based on cloud computing technology and wireless internet.

17. INTANGIBLE ASSETS

Group

	Deferred development costs RMB'000	Trademarks, licences and software RMB'000	Total RMB'000
31 December 2010			
Cost at 1 January 2010, net of accumulated amortisation	3,312	10,340	13,652
Acquisition of subsidiaries (note 30)	–	4,593	4,593
Additions	–	877	877
Write-off	(3,312)	–	(3,312)
Amortisation provided during the year	–	(2,556)	(2,556)
At 31 December 2010	–	13,254	13,254
At 31 December 2010:			
Cost	3,312	17,058	20,370
Accumulated amortisation	(3,312)	(3,804)	(7,116)
Net carrying amount	–	13,254	13,254
31 December 2009			
Cost at 1 January 2009, net of accumulated amortisation	–	703	703
Acquisition of a subsidiary (note 30)	–	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

18. INVESTMENTS IN SUBSIDIARIES

	Company 2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**74,333**	74,333
Capital contribution in respect of share-based compensation	**14,192**	5,700
	88,525	80,033

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.

(a) 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") (note (ii))	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. ("Cash River") (note (ii))* #	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. ("Huadong Feitian") (notes (i) and (ii))*@	PRC	RMB28,680,000 Registered capital	–	100	Provision of telecommunications instant messaging and value-added services

18. INVESTMENTS IN SUBSIDIARIES (continued)

(a) Particulars of the subsidiaries are as follows: (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 (i) and (ii)) *@	PRC	RMB10,000,000 Registered capital	–	100	Development of computer software and provision of technical and management consultancy services
深圳市快通聯科技有限公司 Shenzhen Kuaitonglian Technology Co., Ltd. (notes (i) and (ii))* @	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. (notes (i) and (ii)) *@	PRC	RMB5,000,000 Registered capital	–	100	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. (notes (i) and (ii)) *@	PRC	RMB10,000,000 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 Cultural Broadcasting Co., Ltd. (notes (i) and (ii)) *@	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. (notes (i) and (ii)) *@	PRC	RMB20,000,000 Registered capital	–	100	Provision of mobile value-added services

18. INVESTMENTS IN SUBSIDIARIES (continued)

(a) Particulars of the subsidiaries are as follows: (continued)

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company Direct	Indirect	Principal activities
江蘇廣視科貿發展有限公司 Jiangsu Guangshi Science and Trade Development Limited (notes (i) and (ii)) *@	PRC	RMB10,070,000 Registered capital	–	100	Provision of mobile value-added services
福州卓龍天訊信息技術有限公司 Fuzhou Zhuolong Tianxun Information Technology Ltd. (notes (i) and (ii)) *@	PRC	RMB10,000,000 Registered capital	–	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. (notes (i) and (ii)) *@	PRC	RMB1,000,000 Registered capital	–	100	Dormant
北京樂音無限文化傳播有限公司 Beijing Yueyin Wuxian Cultural Broadcasting Co., Ltd. (notes (i) and (ii)) *@	PRC	RMB1,000,000 Registered capital	–	100	Dormant
Total Plus Limited	Hong Kong	HK$97,045 Issued capital	–	100	Investment holding
北京錚尚游文化傳播有限公司 Beijing Zhengshangyou Cultural Broadcasting Co., Ltd. (notes (i) and (ii)) *@	PRC	RMB1,000,000 Registered capital	–	80	Provision of mobile value-added services
北京掌中地帶信息科技有限公司 Beijing Zhangzhong Didai Information Technology Ltd. (notes (i) and (ii)) *@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services

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18. INVESTMENTS IN SUBSIDIARIES (continued)

(a) Particulars of the subsidiaries are as follows: (continued)

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company		Principal activities
			Direct	Indirect	
北京環宇信誠軟件技術開發有限公司 Beijing Huanyu Xincheng Software Development Co., Ltd. (note (ii)) *@	PRC	RMB10,000,000 Registered capital	–	100	Dormant
深圳市掌翼天下科技有限公司 Shenzhen Zhangyi Tianxia Technology Co., Ltd. (notes (i) and (ii)) *@	PRC	RMB3,000,000 Registered capital	–	100	Dormant

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

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

@ Registered as domestic limited liability companies under PRC law.

Notes:

(i) 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.

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

18. INVESTMENTS IN SUBSIDIARIES (continued)

(b) Controlled special purpose entity

The Company has set up a trust, A8 Digital Music share award trust (the "Trust"), for the purpose of administrating the share award scheme established by the Company during the year (note 28). In accordance with SIC Interpretation 12 *Consolidation-Special Purpose Entities*, the Company is required to consolidate the Trust as the Company has the power to govern the financial and operating policies of the Trust and can derive benefits from the contributions of employees who have been awarded the shares through their employment with the Group.

Special purpose entity	Place of incorporation	Principal activities
Law Debenture (Asia) Trust Limited-A8 Digital Music	Hong Kong	Administrating and holding the Company's shares for the share award scheme for the benefit of eligible employees

As at 31 December 2010, the Group has contributed RMB2,620,000 to the Trust for the shares not yet vested and the amount was recorded as "Contribution to share award trust" in the Company's statement of financial position.

19. ACCOUNTS RECEIVABLE

	Group	
	2010	2009
	RMB'000	RMB'000
Accounts receivable	**88,605**	121,926
Impairment	**(5,216)**	–
	83,389	121,926

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to them 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.

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19. 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	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired:		
Within 1 month	**34,539**	66,304
1 to 2 months	**29,214**	31,420
2 to 3 months	**11,623**	10,656
3 to 4 months	**3,680**	4,882
Past due but not impaired:		
4 to 6 months	**4,317**	6,387
Over 6 months	**16**	2,277
	83,389	121,926

Receivables that were neither past due nor impaired related 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.

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

	Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	**–**	–
Impairment losses recognised (note 7)	**5,216**	–
At 31 December	**5,216**	–

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

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2010	2009
	RMB'000	RMB'000
Prepayments	14,871	10,455
Prepaid land lease payments (note 14)	585	585
Deposits and other receivables	13,387	18,756
Impairment	–	(1,387)
	28,843	28,409

The financial assets as at the end of the reporting period related 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.

21. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Listed equity investments in Mainland China, at fair value	4,374	3,130	–	–
Unlisted investments, at fair value	15,000	42,004	–	34,004
	19,374	45,134	–	34,004

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

The Group's and the Company's unlisted investments represented 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 the Company's unlisted investments, amounting to RMB34,004,000, were capital-protected if they were held to maturity.

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22. CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**187,621**	126,218	**17,109**	28,331
Short term deposits	**204,919**	207,583	**81,840**	68,049
Cash and cash equivalents	**392,540**	333,801	**98,949**	96,380
Denominated in RMB	**290,106**	236,316	**4**	–
Denominated in other currencies	**102,434**	97,485	**98,945**	96,380
Cash and cash equivalents	**392,540**	333,801	**98,949**	96,380

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 three 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.

23. 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	
	2010	2009
	RMB'000	RMB'000
Within 1 month	**8,701**	25,774
1 to 3 months	**15,685**	18,480
4 to 6 months	**7,531**	5,881
Over 6 months	**11,805**	4,518
	43,722	54,653

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

24. OTHER PAYABLES AND ACCRUALS

	Group 2010 RMB'000	2009 RMB'000
Other payables	**11,828**	9,259
Accruals	**41,349**	32,777
	53,177	42,036

25. DEFERRED TAX

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

Group

	Deductible temporary differences RMB'000	Transfer of profit derived from contractual agreements RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Fair value gain on investments at fair value through profit or loss RMB'000	Development costs RMB'000	Total RMB'000
At 1 January 2009	4,899	(813)	–	–	–	4,086
Deferred tax credited/(charged) to the income statement during the year (note 9)	(3,096)	–	131	(177)	(498)	(3,640)
Acquisition of a subsidiary (note 30)	–	–	(1,304)	–	–	(1,304)
At 31 December 2009 and 1 January 2010	1,803	(813)	(1,173)	(177)	(498)	(858)
Deferred tax credited/(charged) to the income statement during the year (note 9)	3,265	–	260	–	498	4,023
At 31 December 2010	**5,068**	**(813)**	**(913)**	**(177)**	**–**	**3,165**

25. DEFERRED TAX (continued)

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:

	2010 RMB'000	2009 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	5,068	1,803
Net deferred tax liabilities recognised in the consolidated statement of financial position	(1,903)	(2,661)
	3,165	(858)

The Group has tax losses arising in Mainland China of RMB14,300,000 (2009: RMB3,096,000) 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 PRC 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 for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2010, 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 RMB254,897,000 at 31 December 2010 (2009: RMB203,750,000).

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

26. SHARE CAPITAL

Shares

	2010 RMB'000	2009 RMB'000
Authorised:		
3,000,000,000 (2009: 3,000,000,000) ordinary shares of HK$0.01 each	**26,513**	26,513
Issued and fully paid:		
463,402,530 (2009: 457,749,950) ordinary shares of HK$0.01 each	**4,095**	4,045

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 HK$'000	Share premium account HK$'000	Equivalent nominal value of ordinary shares RMB'000	Equivalent share premium account RMB'000	Total RMB'000
As at 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 11)	–	–	(22,887)	–	(20,140)	(20,140)
As at 31 December 2009 and 1 January 2010	457,749,950	4,578	197,037	4,045	174,200	178,245
Exercise of share options	5,652,580	57	10,853	50	9,461	9,511
As at 31 December 2010	**463,402,530**	**4,635**	**207,890**	**4,095**	**183,661**	**187,756**

During the year, a total of 1,812,500 share options under Pre-IPO share option scheme were exercised at exercise prices ranging from HK$0.16 to HK$0.74 per share, and a total of 3,840,080 share options under share option scheme were exercised at exercise prices ranging from HK$1.18 to HK$3.20 per share for a total cash consideration, before expenses, of HK$5,198,000.

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27. SHARE OPTION SCHEMES

(a) Pre-IPO share option scheme

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

	2010		2009	
	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	**0.60**	**3,535**	0.77	18,370
Forfeited during the year	**0.71**	**(582)**	0.87	(4,474)
Exercised during the year	**0.57**	**(1,813)**	0.78	(10,361)
At 31 December	**0.58**	**1,140**	0.60	3,535

The weighted average share price at the date of exercise for share options exercised during the year was HK$3.13 per share (2009: HK$3.02).

27. SHARE OPTION SCHEMES (continued)

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

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

2010

Number of options '000	Exercise price* HK$ per share	Exercise period
35	0.16	1-2-2009 to 21-5-2012
63	0.17	1-2-2009 to 21-5-2012
67	0.29	1-2-2009 to 21-5-2012
152	0.39	1-2-2009 to 21-5-2012
135	0.52	1-2-2009 to 21-5-2012
103	0.65	1-2-2009 to 21-5-2012
585	0.74	1-2-2009 to 21-5-2012
1,140		

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		

* 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 in 2008 was RMB20,210,000 (RMB1.1 each). The Group recognised a share option expense of RMB753,000 (2009: RMB2,518,000) during the year ended 31 December 2010 in respect of share options granted in the prior years.

27. SHARE OPTION SCHEMES (continued)

(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.

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.

27. SHARE OPTION SCHEMES (continued)

(b) Share option scheme (continued)

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 share option scheme during the year:

	2010		2009	
	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	2.90	22,720	1.18	4,513
Granted during the year	–	–	3.20	19,308
Forfeiture during the year	3.17	(6,140)	–	–
Exercised during the year	2.60	(3,840)	1.18	(1,101)
At 31 December	2.86	12,740	2.90	22,720

The weighted average share price of share options exercised during the year at the date of exercise was HK$3.17 (2009: HK$3.38).

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

2010

Number of options '000	Exercise price* HK$ per share	Exercise period
108	1.160	16-10-2009 to 15-10-2018
2,203	1.184	15-10-2010 to 14-10-2018
6,380	3.168	1-7-2010 to 5-10-2014
2,849	3.200	24-12-2009 to 24-12-2014
1,200	3.630	21-9-2010 to 21-9-2014
12,740		

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27. SHARE OPTION SCHEMES (continued)

(b) Share option scheme (continued)

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		

* 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 in 2009 was RMB19,108,000 (RMB0.99 each). The Group recognised a share option expense of RMB6,883,000 (2009: RMB2,778,000) during the year ended 31 December 2010 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:

	2009
Dividend yield (%)	1.38-1.62
Expected volatility (%)	55.01-85.47
Risk-free interest rate (%)	0.12-1.50
Expected life of options (year)	0.5-4
Weighted average share price (HK$ per share)	3.09-3.63

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.

27. 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:

	2010		2009	
	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	0.75	5,332	0.75	5,332
Exercised during the year	0.61	(2,812)	–	–
At 31 December	0.90	2,520	0.75	5,332

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27. 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:

2010

Number of options '000	Exercise price* HK$ per share	Exercise period
28	0.16	1-2-2009 to 4-8-2012
2,492	0.91	1-2-2009 to 4-8-2012
2,520		

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		

* 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 RMB464,000 (2009: RMB1,354,000) during the year ended 31 December 2010 in respect of share options granted in the prior years.

At the end of the reporting period, the Company had 13,880,000 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 13,880,000 additional ordinary shares of the Company and additional share capital of HK$139,000 and share premium of HK$36,944,000 (before issue expenses).

Subsequent to the end of the reporting period, an aggregate of 641,520 share options under the Pre-IPO share option scheme were exercised which result in the issue of 641,520 ordinary shares of the Company and new share capital of HK$6,415 (equivalent to RMB5,411) and share premium of HK$355,541 (equivalent to RMB299,899) (before issue expenses) and an aggregate of 1,538,700 share options under the share option scheme were lapsed.

On 17 January 2011, 5,761,675 share options under share option scheme were cancelled upon the grant of 2,171,806 award shares under share award scheme (note 38(a)). At the date of approval of these financial statements, the Company had 5,937,566 share options outstanding under the Pre-IPO share option scheme and the share option scheme, which represented approximately 1.3% of the Company's shares in issue as at that date.

28. SHARE AWARD SCHEME

On 16 August 2010, the board of directors of the Company (the "Board") approved the establishment of a share award scheme with the objective to recognise the performance of eligible employees within the Group and to retain them for the continued operation and development of the Group and to encourage senior employees to have a direct financial interest in the long term success of the Group. Under the share award scheme, award shares of the Company ("Award Shares") are granted to eligible employees of the Company or any one of its subsidiaries for no consideration but subject to certain conditions (including but not limited to, lock-up period) to be decided by the Board at the time of grant of the award shares under the share award scheme. The share award scheme will remain in force for 10 years from the date of adoption.

The share award scheme will operate in parallel with the Company's Pre-IPO share option scheme and share option scheme. All options granted under the Pre-IPO share option scheme and the share option scheme will continue to be valid and exercisable subject to and in accordance with the terms of those schemes.

Pursuant to the rules of the share award scheme, the Company has set up the Trust for the purpose of administering the share award scheme and holding the award shares before vested and the expiry of the lock-up period. The Company can (i) make a loan to the Trust from time to time for the purchase of award shares under the loan agreement; (ii) instruct its broker to purchase existing shares of the Company from the market, settle payment and costs and deliver the same to the trustee to hold on trust for the eligible employees and (iii) allot and issue new shares in the Company to the trustee to hold on trust for the eligible employees.

The maximum number of all award shares purchased by the trustee under the share award scheme must not be 10% or more of the issued share capital of the Company as at the adoption date, i.e., 46,084,435 shares, unless the Board otherwise decides.

During the year, a total of 2,014,000 shares have been awarded to an executive director for no consideration but subject to conditions including performance benchmark and lock-up periods. A total of 2,014,000 shares at a cost of RMB4,969,000 were vested during the year.

Movement in the number of award shares and their related average fair value is as follow:

	Average fair value HK$ per share	**2010 Number of shares '000**
At 1 January	–	**–**
Awarded	2.90	**2,014**
Vested	2.90	**(2,014)**
At 31 December		**–**

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28. SHARE AWARD SCHEME (continued)

Movement in the number of shares held under share award scheme is as follows:

	2010 Number of shares held
At 1 January	–
Purchased during the year	1,006
Released during the year	(900)
At 31 December	106

The fair value of award shares granted during the year was estimated as at the date of grant, using the Black-Scholes Put Formula, taking into account the terms and conditions upon which the award shares were granted. The following table lists the inputs to the model used:

	2010
Dividend yield (%)	1.54
Historical volatility (%)	58.09
Risk-free interest rate (%)	0.13-0.38
Weighted average share price (HK$ per share)	3.25

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

On 17 January 2011, the Company awarded 2,171,806 award shares to 170 awardees, upon the cancellation on the same day of the specific share options.

29. 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 44 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 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, 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.

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29. RESERVES (continued)

(b) Company

	Share premium account RMB'000	Shares held under share award scheme RMB'000	Capital reserve RMB'000	Exchange fluctuation reserve RMB'000	Employee share-based compensation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 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 11)	(20,140)	–	–	–	–	–	(20,140)
At 31 December 2009 and 1 January 2010	178,247*	–	8,969*	(865)	5,849	3,527*	195,727
Total comprehensive income for the year	–	–	–	(212)	–	39	(173)
Equity-settled share-based payment arrangements	–	–	–	–	12,647	–	12,647
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	(1,005)	1,005	–
Employee share award scheme:							
– shares purchased for share award scheme	–	(2,708)	–	–	–	–	(2,708)
– release of award shares	–	2,428	–	–	(2,428)	–	–
Exercise of share options	13,799	–	–	–	(4,313)	–	9,486
At 31 December 2010	**192,046***	**(280)**	**8,969***	**(1,077)**	**10,750**	**4,571***	**214,979**

* These reserve accounts comprise the Company's reserves available for distribution amounting to RMB205,586,000 (2009: RMB190,743,000).

The employee share-based compensation reserve comprises the fair value of share options and share awards 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.

30. BUSINESS COMBINATION

(a) On 19 August 2010, the Group acquired a 80% interest in Beijing Zhengshangyou Cultural Broadcasting Co., Ltd. ("Zhengshangyou"). Zhengshangyou is engaged in the provision of mobile value-added services. The acquisition was made as part of the Group's strategy to expand the market share of new business in the mobile telecommunication industry. The purchase consideration for the acquisition was in the form of cash, with RMB1,505,000 and RMB2,295,000, paid on 30 August 2010 and 28 October 2010, respectively. The remaining RMB500,000 will be paid on or before 28 April 2011.

The Group has elected to measure the non-controlling interests in Zhengshangyou at the non-controlling interests' proportionate share of Zhengshangyou's identifiable net assets.

The fair values of the identifiable assets and liabilities of Zhengshangyou as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	43
Intangible assets	17	2,347
Cash and bank balances		181
Accounts receivable		47
Prepayments, deposits and other receivables		30
Tax payable		(17)
Total identifiable net assets at fair value		2,631
Non-controlling interests		(526)
Goodwill on acquisition	15	2,195
Satisfied by cash		4,300

The fair values of the accounts receivable and other receivables as at the date of acquisition amounted to RMB47,000 and RMB30,000, respectively. The gross contractual amounts of accounts receivable and other receivables were RMB47,000 and RMB1,465,000, respectively, of which other receivables of RMB1,435,000 are expected to be uncollectible.

30. BUSINESS COMBINATION (continued)

(a) (continued)

An analysis of the cash flows in respect of the acquisition of Zhengshangyou is as follows:

	RMB'000
Cash consideration paid	(3,800)
Cash and bank balances acquired	181
Net outflow of cash and cash equivalents included in cash flows from investing activities	(3,619)

Since the acquisition, Zhengshangyou contributed RMB2,757,000 to the Group's turnover and a loss of RMB66,000 to the consolidated income statement for the year ended 31 December 2010.

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.

(b) On 31 August 2010, the Group acquired a 100% interest in Beijing Zhangzhong Didai Information Technology Ltd. ("Zhangzhong Didai"). Zhangzhong Didai is engaged in the provision of mobile value-added services. The acquisition was made as part of the Group's strategy to expand the market share of new business in the mobile telecommunication industry. The purchase consideration for the acquisition was in the form of cash, with RMB4,000,000 paid. The remaining RMB1,000,000 will be paid within 15 days after the condition that the transfer of legal title of certain licences to the Group is satisfied.

The fair values of the identifiable assets and liabilities of Zhangzhong Didai as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	3
Intangible assets	17	2,246
Cash and bank balances		648
Accounts receivable		608
Prepayments, deposits and other receivables		–
Tax payable		(20)
Total identifiable net assets at fair value		3,485
Goodwill on acquisition	15	1,515
Satisfied by cash		5,000

The fair values of the accounts receivable and other receivables as at the date of acquisition amounted to RMB608,000 and nil, respectively. The gross contractual amounts of accounts receivable and other receivables were RMB608,000 and RMB9,385,000, respectively, of which other receivables of RMB9,385,000 are expected to be uncollectible.

30. BUSINESS COMBINATION (continued)

(b) (continued)

An analysis of the cash flows in respect of the acquisition of Zhangzhong Didai is as follows:

	RMB'000
Cash consideration paid	(4,000)
Cash and bank balances acquired	648
Net outflow of cash and cash equivalents included in cash flows from investing activities	(3,352)

Since the acquisition, Zhangzhong Didai contributed RMB6,908,000 to the Group's turnover and a profit of RMB2,086,000 to the consolidated income statement for the year ended 31 December 2010.

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.

(c) 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 were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	13	127
Intangible assets	17	5,217
Cash and bank balances		3,504
Accounts receivable		1,693
Prepayments, deposits and other receivables		468
Accounts payable		(2)
Tax payable		(89)
Other payables and accruals		(2,578)
Deferred tax liabilities	25	(1,304)
		7,036
Gain on bargain purchase recognised in other income and gains in the consolidated income statement	6	(265)
Satisfied by cash		6,771

30. BUSINESS COMBINATION (continued)

(c) (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 the acquisition, Jiangsu Guangshi and its subsidiaries contributed RMB6,599,000 to the Group's turnover and a profit of RMB3,688,000 to the consolidated income statement for the year ended 31 December 2009.

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

31. PENDING LITIGATING

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. At a court hearing conducted on 25 May 2010, the Company requested the court to conduct an investigation of evidence procedures, and the court will make a judgement after the completion of the investigation of evidence procedures. On 26 January 2011, the court commenced the investigation of evidence procedures. The Company has not received from the court any notification on the progress of the aforesaid legal proceeding as at the date of approval of these financial statements. Based on the legal advice of the Company's PRC 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 the operating results of the Group, and thus no provision is needed to be made as of the date of approval of these financial statements.

32. 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	
	2010	2009
	RMB'000	RMB'000
Within one year	**5,579**	3,927
In the second to fifth years, inclusive	**2,519**	5,102
	8,098	9,029

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following commitments as at the end of the reporting period:

	Group	
	2010	2009
	RMB'000	RMB'000
Authorised, but not contracted for:		
Construction in progress	**281,000**	120,000
Contracted, but not provided for:		
Construction in progress	**11,000**	–
	292,000	120,000

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

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34. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group

	2010 RMB'000	2009 RMB'000
Short term employee benefits	4,332	5,208
Post-employment benefits	103	103
Equity-settled share-based payment expenses	2,136	2,764
Total compensation paid to key management personnel	6,571	8,075

35. FINANCIAL INSTRUMENTS BY CATEGORY

Other than investments at fair value through profit or loss as disclosed in note 21 to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2009 and 2010, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

36. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's and the Company's financial instruments are approximate to their fair values.

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 any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

As at 31 December 2010, the investments at fair value through profit or loss amounting to RMB19,374,000 (2009: RMB37,134,000) are measured at fair value in Level 1, and the investments at fair value through profit or loss amounting to nil (2009: RMB8,000,000) are measured at fair value in Level 2.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

(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 from the end of the reporting period. 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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Liquidity risk (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 the end of the reporting periods were as follows:

	2010 RMB'000	2009 RMB'000
Cash and cash equivalents	**392,540**	333,801
Accounts payable	**(43,722)**	(54,653)
Other payables and accruals	**(53,177)**	(42,036)
Net cash over debt position	**295,641**	237,112

38. EVENTS AFTER THE REPORTING PERIOD

(a) On 17 January 2011, the Company granted 2,171,806 award shares to 170 awardees pursuant to the terms of the share award scheme, upon the cancellation on the same day of the specific share options to subscribe for an aggregate of 5,761,675 shares granted to the awardees in 2009 under the share option scheme, as further detailed in note 27 and note 28 to the financial statements.

(b) On 31 January 2011, the Group acquired 20% interest in Shenzhen Ningmenghai Technology Co. Ltd ("Ningmenghai"), which is engaged in the provision of internet social network service provider. The Group has acquired Ningmenghai to enter into the internet social networking industry, and to further expand the Group's business in this industry.

The purchase consideration of RMB5,300,000 for the acquisition was in form of cash and was paid on 1 February 2011.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2011.

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A8 Digital Music Holdings Limited
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