



**A8 DIGITAL MUSIC HOLDINGS LIMITED**

**A8電媒音樂控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00800

**INTERIM REPORT 2012**



我的音乐无处不在!  
My Music Everywhere!





## CONTENTS

Corporate Information	2
Interim Consolidated Income Statement	3
Interim Consolidated Statement of Comprehensive Income	4
Interim Consolidated Statement of Financial Position	5
Interim Consolidated Statement of Changes in Equity	6
Interim Condensed Consolidated Statement of Cash Flows	8
Notes to Unaudited Interim Accounts	9
Management Discussion and Analysis	16
Disclosure of Interests	25
Purchase, Sale or Redemption of the Company's Listed Securities	28
Compliance with the Code on Corporate Governance Practices	28
Compliance with the Model Code	28
Audit Committee	28



## Corporate Information

### EXECUTIVE DIRECTORS

Mr. Liu Xiaosong  
Mr. Lu Bin

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yiu Kwong  
Mr. Zeng Liqing  
Ms. Wu Shihong

### AUDIT COMMITTEE

Mr. Chan Yiu Kwong (*Chairman*)  
Mr. Zeng Liqing  
Ms. Wu Shihong

### NOMINATION COMMITTEE

Mr. Liu Xiaosong (*Chairman*)  
Mr. Zeng Liqing  
Ms. Wu Shihong

### REMUNERATION COMMITTEE

Ms. Wu Shihong (*Chairman*)  
Mr. Liu Xiaosong  
Mr. Zeng Liqing

### AUTHORISED REPRESENTATIVES

Mr. Liu Xiaosong  
Ms. Gao Keying

### COMPANY SECRETARIES

Ms. Ho Yip, Betty  
Ms. Gao Keying

### AUDITORS

Ernst & Young

### PRINCIPAL BANKERS

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

### REGISTERED OFFICE

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

### HEAD OFFICE

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

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 06-12, 33/F.  
Shui On Centre  
6-8 Harbour Road  
Wanchai  
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](http://www.a8.com)

### STOCK CODE

00800

# Condensed Consolidated Income Statement

For the six months ended 30 June 2012

The Board of Directors (the “**Board**”) of A8 Digital Music Holdings Limited (the “**Company**”) hereby present the unaudited condensed consolidated interim financial statements (“**Interim Accounts**”) of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2012 together with the unaudited comparative figures for the corresponding period in 2011 as follows:

		<b>For the six months ended 30 June</b>	
		<b>2012</b>	2011
Notes		<b>(Unaudited) RMB'000</b>	(Unaudited) RMB'000
Revenue		<b>184,079</b>	249,176
Business tax		<b>(3,741)</b>	(5,628)
Net revenue	3	<b>180,338</b>	243,548
Cost of services provided		<b>(118,688)</b>	(145,079)
Gross profit		<b>61,650</b>	98,469
Other income and gains, net	3	<b>4,480</b>	8,677
Selling and marketing expenses		<b>(46,818)</b>	(68,884)
Administrative expenses		<b>(24,088)</b>	(25,797)
Other expenses		<b>(843)</b>	(530)
Share of losses of associates		<b>(3,199)</b>	–
<b>PROFIT/(LOSS) BEFORE TAX</b>	4	<b>(8,818)</b>	11,935
Income tax expense	5	<b>(820)</b>	(2,384)
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>(9,638)</b>	9,551
Attributable to:			
Owners of the Company		<b>(9,638)</b>	9,323
Non-controlling interests		–	228
		<b>(9,638)</b>	9,551
<b>EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	7		
Basic (RMB per share)		<b>(0.02)</b>	0.02
Diluted (RMB per share)		<b>(0.02)</b>	0.02

# Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012 (Unaudited) RMB'000	2011 (Unaudited) RMB'000
Profit/(loss) for the period	(9,638)	9,551
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange realignment	1,640	(73)
Total comprehensive income/(loss) for the period, net of tax	(7,998)	9,478
Attributable to:		
Owners of the parent	(7,998)	9,250
Non-controlling interests	-	228
	(7,998)	9,478

# Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	30 June 2012 (Unaudited) RMB'000	31 December 2011 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	72,284	60,509
Prepaid land lease payments		26,534	26,825
Goodwill		1,515	1,515
Prepayment for acquisition of property, plant and equipment		8,351	4,593
Intangible assets		30,541	30,855
Investment in associates	9	19,978	4,177
Deposit for acquisition of an investment		–	8,000
Deferred tax assets		4,431	4,594
Total non-current assets		163,634	141,068
<b>CURRENT ASSETS</b>			
Accounts receivable	10	67,198	55,058
Prepayments, deposits and other receivables		25,622	37,839
Investments at fair value through profit or loss		77,950	1,880
Time deposits with original maturity of more than three months		87,357	71,911
Cash and cash equivalents		244,822	360,596
Total current assets		502,949	527,284
<b>CURRENT LIABILITIES</b>			
Accounts payable	11	28,002	26,483
Other payables and accruals		50,105	72,439
Tax payable		5,842	7,201
Deferred income		5,721	6,808
Total current liabilities		89,670	112,931
<b>NET CURRENT ASSETS</b>		413,279	414,353
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		576,913	555,421
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowing		39,722	13,000
Deferred tax liabilities		1,512	1,643
Total non-current liabilities		41,234	14,643
Net assets		535,679	540,778
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	12	4,204	4,201
Reserves		531,475	536,577
Total equity		535,679	540,778

# Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2012

	Attributable to owners of the Company											
	Issued capital (Unaudited) RMB'000	Shares			Employee			Statutory			Retained profits (Unaudited) RMB'000	Total (Unaudited) RMB'000
		Share premium account (Unaudited) RMB'000	held under share award scheme (Unaudited) RMB'000	Merger reserve (Unaudited) RMB'000	Surplus contributions (Unaudited) RMB'000	share-based compensation reserve (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	reserve funds (Unaudited) RMB'000	Reserve fund (Unaudited) RMB'000		
At 1 January 2012	4,201	184,959	(1,816)	29,135	10,522	20,394	2,132	10,833	21,399	4,422	254,597	540,778
Profit for the period	-	-	-	-	-	-	-	-	-	-	(9,638)	(9,638)
Other comprehensive income for the period:												
Exchange realignment	-	-	-	-	-	-	1,640	-	-	-	-	1,640
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	1,640	-	-	-	(9,638)	(7,998)
Exercise of share options	3	239	-	-	-	(324)	-	-	-	-	-	(82)
Equity-settled share-based payment arrangements	-	-	-	-	-	2,981	-	-	-	-	-	2,981
Transfer of reserve upon the forfeiture or expiry of share option and restricted share	-	-	-	-	-	(1,494)	-	-	-	-	1,494	-
Employee share award scheme — release of award shares	-	-	408	-	-	(408)	-	-	-	-	-	-
As at 30 June 2012	4,204	185,198	(1,408)	29,135	10,522	21,149	3,772	10,833	21,399	4,422	246,453	535,679



# Condensed Consolidated Statement of Changes In Equity (continued)

For the six months ended 30 June 2012

	Attributable to owners of the Company													Total equity
	Shares			Employee			Statutory			Non-			Total	
	Issued capital	Share premium account	held under share award scheme	Merger reserve	Surplus contributions	share-based compensation reserve	Exchange fluctuation reserve	Capital reserve	reserve funds	Reserve fund	Retained profits	controlling interests		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)		
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2011	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
Profit for the period	-	-	-	-	-	-	-	-	-	-	9,323	9,323	228	9,551
Other comprehensive loss for the period:														
Exchange realignment	-	-	-	-	-	-	(73)	-	-	-	-	(73)	-	(73)
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	(73)	-	-	-	9,323	9,250	228	9,478
Disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(1,054)	(1,054)
Exercise of share options	7	1,275	-	-	-	(886)	-	-	-	-	-	396	-	396
Issuance of new shares	76	-	(76)	-	-	-	-	-	-	-	-	-	-	-
Equity-settled share-based payment arrangements	-	-	-	-	-	4,404	-	-	-	-	-	4,404	-	4,404
Transfer of reserve upon the forfeiture or expiry of share option and restricted share	-	-	-	-	-	(1,366)	-	-	-	-	1,366	-	-	-
Employee share award scheme – shares purchased for share award scheme	-	-	(1,457)	-	-	-	-	-	-	-	-	(1,457)	-	(1,457)
– release of award shares	-	-	1,377	-	-	(1,377)	-	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	-	-	-	-	-	1,135	-	(1,135)	-	-	-
As at 30 June 2011	4,178	184,936	(436)	29,135	10,522	15,325	2,589	10,833	19,888	4,422	251,893	533,285	-	533,285

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	<b>For the six months ended 30 June</b>	
	<b>2012 (Unaudited) RMB'000</b>	2011 (Unaudited) RMB'000
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(25,811)</b>	(6,572)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(118,243)</b>	(1,772)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>26,640</b>	(1,061)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(117,414)</b>	(9,405)
Cash and cash equivalents at beginning of period	<b>360,596</b>	392,540
Effect of foreign exchange rate changes, net	<b>1,640</b>	(73)
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>244,822</b>	383,062
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>228,872</b>	292,180
Time deposits with original maturity of less than three months when acquired	<b>15,950</b>	90,882
	<b>244,822</b>	383,062



# Notes to Condensed Consolidated Interim Financial Statements

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2011, except in relation to the following new and revised International Financial Reporting Standards, (“IFRSs”, which also include IASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
IAS 12 Amendments	Amendments to IAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the above new and revised IFRSs has had no significant financial effect on the interim financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## 2. 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 People’s Republic of China (the “PRC”), and no non-current assets of the Group are located outside the PRC.

# Notes to Condensed Consolidated Interim Financial Statements

## 3. REVENUE, OTHER INCOME AND GAINS, NET

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

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

	<b>For the six months ended 30 June</b>	
	<b>2012 (Unaudited) RMB'000</b>	2011 (Unaudited) RMB'000
<b>Revenue</b>		
Ringtone services	<b>15,382</b>	28,136
Ringback tone services	<b>108,070</b>	135,736
Other music related services	<b>2,169</b>	5,947
Non-music related services	<b>58,458</b>	79,357
	<b>184,079</b>	249,176
Less: Business tax	<b>(3,741)</b>	(5,628)
Net revenue	<b>180,338</b>	243,548
<b>Other income and gains, net</b>		
Interest income	<b>4,321</b>	3,573
Fair value gain/(loss) on investments at fair value through profit and loss	<b>70</b>	(327)
Gain on disposal of investments at fair value through profit or loss	–	534
Reversal of bad debts provision	–	3,443
Gain on disposal of subsidiaries	–	794
Foreign exchange differences, net	<b>71</b>	–
Others	<b>18</b>	660
	<b>4,480</b>	8,677

# Notes to Condensed Consolidated Interim Financial Statements

## 4. PROFIT/(LOSS) BEFORE TAX

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

	<b>For the six months ended 30 June</b>	
	<b>2012 (Unaudited) RMB'000</b>	2011 (Unaudited) RMB'000
Depreciation	<b>745</b>	1,093
Amortisation of intangible assets	<b>4,189</b>	1,563
Amortisation of prepaid land lease payments	<b>293</b>	293

## 5. INCOME TAX EXPENSE

An analysis of income tax charges for the six months ended 30 June 2012 and 2011 is shown as follows:

	<b>For the six months ended 30 June</b>	
	<b>2012 (Unaudited) RMB'000</b>	2011 (Unaudited) RMB'000
Group		
Current – PRC		
Charge for the period	<b>174</b>	2,215
Underprovision in the prior year	<b>483</b>	–
Deferred	<b>163</b>	169
Total tax charge for the period	<b>820</b>	2,384

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 six months ended 30 June 2012 and 2011, respectively.

The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing tax rates in the jurisdictions in which the subsidiaries operate.



## Notes to Condensed Consolidated Interim Financial Statements

### 6. INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

### 7. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earning/(loss) per share amount for the six months ended 30 June 2012 is based on the loss for the period attributable to equity holders of the Company of RMB9,638,000 (six month ended 30 June 2011: profit of RMB9,323,000) and the weighted average number of ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2012 of 466,388,783 (2011: 469,431,607).

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2012 in respect of a dilution as the impact of the share options outstanding and the awarded shares had an anti-dilutive effect on the basic loss per share amount presented.

The calculation of diluted earnings per share for the six months ended 30 June 2011 is based on the profit for the period attributable to equity holders of the Company of RMB9,323,000 as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the 469,431,607 ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2011, as used in the basic earnings per share calculation, and the weighted average of 2,192,126 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.

### 8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB12,841,000 (2011: RMB7,231,000).

### 9. INVESTMENT IN ASSOCIATES

During the period, the Group acquired 42.69% interest in Duomi Music Holding Ltd. ("Duomi Music") for a total cash consideration of RMB19,000,000. Duomi Music is a limited liability company incorporated in the Cayman Islands. Duomi Music and its subsidiaries are principally engaged in the provision of ancillary and related services in relation to mobile internet, especially the research and development of music platforms and operations.

In the prior period, the Group acquired 19.34% interest in Shenzhen Ningmenghai Technology Co., Ltd. ("Ningmenghai") for a total cash consideration of RMB5,300,000. Ningmenghai is a company incorporated in the PRC on 26 November 2010, and operated as an internet social network service provider.

# Notes to Condensed Consolidated Interim Financial Statements

## 10. ACCOUNTS RECEIVABLE

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:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
<b>Neither past due nor impaired:</b>		
Within 1 month	<b>17,283</b>	20,401
1 to 2 months	<b>15,598</b>	16,262
2 to 3 months	<b>14,075</b>	11,056
3 to 4 months	<b>6,395</b>	2,460
<b>Past due but not impaired:</b>		
4 to 6 months	<b>9,725</b>	1,435
Over 6 months	<b>4,122</b>	3,444
	<b>67,198</b>	55,058

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

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

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
At the beginning of period/year	<b>2,399</b>	5,216
Impairment losses recognised	–	776
Reversal of bad debts provision	–	(3,593)
At the end of period/year	<b>2,399</b>	2,399

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.

# Notes to Condensed Consolidated Interim Financial Statements

## 11. 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:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Within 1 month	<b>5,395</b>	5,160
1 to 3 months	<b>8,682</b>	10,178
4 to 6 months	<b>2,431</b>	3,785
Over 6 months	<b>11,494</b>	7,360
	<b>28,002</b>	26,483

## 12. SHARE CAPITAL

### Shares

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
<b>Authorised:</b> 3,000,000,000 (2011: 3,000,000,000) ordinary shares of HK\$0.01 each (2011: HK\$0.01 each)	<b>26,513</b>	26,513
<b>Issued and fully paid:</b> 476,282,376 (2011: 475,976,496) ordinary shares of HK\$0.01 each	<b>4,204</b>	4,201



# Notes to Condensed Consolidated Interim Financial Statements

## 12. SHARE CAPITAL (CONTINUED)

A summary of the transactions during the six months ended 30 June 2012 in the Company's issued share capital is as follows:

	<b>Number of issued and fully paid ordinary shares</b>	<b>Nominal value of ordinary shares</b>	<b>Share premium account</b>	<b>Equivalent nominal value of ordinary shares</b>	<b>Equivalent share premium account</b>	<b>Total</b>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000	RMB'000	RMB'000	RMB'000
At 1 January 2012	475,976,496	4,761	209,458	4,201	184,959	189,160
Exercise of share options	305,880	3	294	3	239	242
<b>At 30 June 2012</b>	<b>476,282,376</b>	<b>4,764</b>	<b>209,752</b>	<b>4,204</b>	<b>185,198</b>	<b>189,402</b>

## 13. COMMITMENTS

The Group had the following commitments as at the end of the reporting period:

	<b>30 June 2012 (Unaudited) RMB'000</b>	31 December 2011 (Audited) RMB'000
Authorised, but not contracted for: Construction in progress	<b>148,000</b>	164,000
Contracted, but not provided for: Construction in progress	<b>92,695</b>	83,761
Acquisition of an investment	–	16,311
	<b>240,695</b>	264,072

## 14. APPROVAL OF THE UNAUDITED INTERIM ACCOUNTS

The unaudited Interim Accounts were approved by the Board on 16 August 2012.



# Management Discussion and Analysis

## BUSINESS REVIEW

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

For the six months ended 30 June 2012, the revenue of the Group amounted to approximately RMB184.1million, representing a decline of approximately 26% as compared with the same period in 2011 (2011: approximately RMB249.2 million).

The decline in revenue was mainly due to the continuing negative impact brought by the strict regulations implemented to the Mobile Value – Added Service in 2010. Since then, we have actively diversified our business through co-operation with more telecom carriers and handset manufacturers, as well as uptrend of mobile internet. However, the diversification and transformation in business can't reverse the downturn of revenue in the short term.

For the six months ended 30 June 2012, the loss attributable to equity holders of the Company amounted to approximately RMB9.6 million, dropped by 203% over the profit attributable to equity holders of the Company of approximately 9.3 million for the last corresponding period.

### Cost of services provided

For the six months ended 30 June 2012, the cost of services provided of the Group amounted to approximately RMB118.7 million, representing a decrease of approximately 18% as compared with the same period in 2011 (2011: approximately RMB145.1 million). The cost of services provided mainly comprises revenue sharing with mobile operators and business alliances, and other costs such as music copyrights and direct labor costs.

Revenue share with mobile operators ranged from 15% to 60% of the total revenue received from mobile users and it averaged at approximately 39% of the total revenue for the six months ended 30 June 2012 (2011: approximately 35%). The increase was mainly due to the change of product mix. Ringback tone services ("RBT") has gone up to 59% of the total revenue from 54% as compared with the same period in 2011, where RBT are normally charged at a higher revenue share.

Revenue share with business alliances averaged at approximately 19% of the total revenue for the six months ended 30 June 2012 (2011: approximately 18%), representing a slight increase of 1% as compared with the last corresponding period.

### **Gross profit**

For the six months ended 30 June 2012, the gross profit of the Group amounted to approximately RMB61.7 million, representing a decrease of approximately 37% as compared with the same period in 2011 (2011: approximately RMB98.5 million).

The gross margin ratio of the Group dropped to 33% from 40% for the last corresponding period, which was suffered from the increased share ratio with mobile operators and business alliances as mentioned above.

### **Other income and gains, net**

For the six months ended 30 June 2012, the other income and gains of the Group were approximately RMB4.5 million, representing a 48% decrease as compared with the last corresponding period (2011: net gain of approximately RMB8.7 million). It mainly comprised interest income of approximately RMB4.3 million while it contained interest income, bad-debt recovered and gain on disposal of subsidiaries of approximately RMB3.6 million, RMB3.4 million and RMB0.8 million respectively in same period in 2011.

### **Selling and marketing expenses**

For the six months ended 30 June 2012, the selling and marketing expenses of the Group amounted to approximately RMB46.8 million, decreased by 32% as compared with the same period in 2011, representing approximately 25% of total revenue (2011: approximately RMB68.9 million, representing approximately 28% of total revenue). The slight decrease in ratio of total revenue is mainly because the Group strengthened cooperation with third parties for its music-related business which reflected in the increase of share with business alliances.

### **Administrative expenses**

For the six months ended 30 June 2012, the administrative expenses of the Group amounted to approximately RMB24.1 million, representing a decrease of approximately 7% as compared with the same period in 2011 (2011: approximately RMB25.8 million).

The decrease was mainly due to the decrease of share option expenses, professional fees and other administrative expenses of approximately RMB1.4 million and RMB2.7 million respectively, which were partly offset by the increase of amortization expenses amounted to approximately RMB2.2 million.



## Management Discussion and Analysis

### Share of losses of associates

For the six months ended 30 June 2012, the Group shared losses of associates of Ningmenghai and Duomi Music amounted to approximately RMB0.4 million and RMB2.8 million respectively. For Duomi Music, we acquired its 42.69% issued share capital and completed the transaction on 23 April 2012. The investment is our strategy in mobile internet and music cloud, which is still under investment stage.

### Tax

For the six months ended 30 June 2012, income tax of the Group amounted to approximately RMB0.8 million, representing a decrease of approximately 66% as compared with the same period in 2011 (2011: approximately RMB2.4 million).

The effective tax rate of the Group was negative of 9.3% in the six months ended 30 June 2012 (2011: approximately 20.0%). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 7.5%, 15%, 25% in the respective operating companies of the Group for 2012 (2011: 0%, 15%, 24%, 25%). The tax expense for the period was mainly the income tax final settlement differences for 2011.

### Current assets and current liabilities

As at 30 June 2012, the total current assets of the Group amounted to approximately RMB502.9 million (2011: approximately RMB527.3 million). Accounts receivable amounted to approximately RMB67.2 million (2011: approximately RMB55.1 million), and the turnover days of accounts receivable is 60 days (2011: 52 days).

As at 30 June 2012, the total current liabilities of the Group amounted to approximately RMB89.7 million (2011: approximately RMB112.9 million). The decrease was mainly due to the decrease of other payables and accruals amounting to approximately RMB22.3 million, among which, approximately RMB12.3 million was related to accrual of project of A8 building.

### Liquidity and financial resources

As at 30 June 2012, 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 RMB410.1 million (2011: approximately RMB434.4 million). Approximately RMB348.3 million or approximately 85% of them were denominated in RMB.

As of 30 June 2012, the Group had borrowings amounted to approximately RMB39.7 million. The borrowings were sole used for the construction of A8 building, which is expected to complete in the first half of next year. The Gearing ratio is 7.4%, which is measured by the net borrowings (total borrowings net of cash and cash equivalent and restricted cash) over the total equity.

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

As at 30 June 2012, the Group did not have any derivative for hedging against both the interest and exchange rate risks.

### Human resources

As at 30 June 2012, the Group had 256 employees (as at 30 June 2011: 299 employees). Total employee costs for the six months ended 30 June 2012, including directors' emoluments, amounted to approximately RMB21.7 million (2011: approximately RMB28.3 million).

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

### Interim dividend

The Board does not recommend the payment of an interim dividend for 2012.



## Management Discussion and Analysis

### BUSINESS OUTLOOK

#### Operation in the first half of 2012

The mobile internet industry in China kept growing rapidly in the first half of 2012. The user scale reached over 450 million and the market size reached RMB23.3 billion in the first half of 2012 which represented a 40% growth as compared to the second half of 2011 according to the statistics published by iResearch. The contribution of Mobile Value-Added Service, the major portion of mobile internet industry, decreased due to the previous change in policy. Facing the difficulties, the Company further deployed short-term and long-term strategic transformation, which has made some progress that would pave the way for future development.

Regarding the self-construction of UGC music and accumulation of worthy copyrights, great strides have been made and significant achievements have been obtained. The Company continued to develop the “Composer Plan” in 2012. Since its debut one year ago, the Company has accumulated more than 300 music copyrights through the plan and has become a music company with the largest annual production of new songs in the Greater China Region. The music includes various categories such as network songs with great potential, customized theme and songs by website composers. These songs rank top rating in Baidu billboard and the top-selling billboard in wireless music market. Among which, the song “Lao Po Zui Da” (老婆最大) has been among the top 10 on Baidu TOP500 Billboard and the top-selling billboard of China Mobile 12530 for a long time while the songs “Tang Gu La” (唐古拉), “Ai Qing Zhuan Shu Quan” (愛情專屬權) and “Si Mi Da” (思密達) resided on Baidu TOP20 Billboard. These UGC songs are highly compatible with the needs of users, which have generated total revenue of approximately RMB 50 million to the Company for the first half of 2012, representing 40% of contribution to the revenue generated from music.

The overall wireless music market continues to grow as the telecom operators, especially China Telecom and China Unicom, who progressively focused on the development of their music business. The Company’s revenue from music and music related business reached RMB126 million during the first half of 2012. We further consolidate our leading position in the wireless music industry and keep the No.1 position in the China Mobile’s wireless market, as well as rank top 3 in the list of music service providers to China Telecom, from which the revenue generated represents a significant 38.6% increase as compared to 2011.

Regarding the mobile internet business, we have built the distribution platform for digital contents and mobile applications through cooperation with telecom operators and handset manufacturers:

- Firstly, we commenced close cooperation with telecom operators and established the cooperation in the Project of “Operational Support to Digital Content Channels” with the China Mobile MM (Mobile Market) base, providing the products and functions design, operating promotion and integrated service support for the operation of Mobile Market’s digital contents like music, games, e-reading, video etc. The project not only strengthens the strategic cooperation between the Company and operators on mobile internet products and channels, but also helps the Company to accumulate experiences and resources in various digital products business of mobile internet.

- Secondly, regarding the cooperation with leading handset manufacturers, the Company consolidated the operation and continued to deepen the cooperation with internationally renowned enterprises like Nokia, Samsung, Lenovo and Huawei. Meanwhile, we reached a series of strategic cooperation with domestic corporations such as ZTE and TCL, the music products covered the terminal devices and application stores under the rapid rise of domestic leading mobile enterprises in the field of smart phone which accounted for almost half of the market share. Meanwhile, facing different needs of multi-users and multi-platforms in the era of mobile internet, the Company and its associated companies launched a music service system with “Music APP” as the core to support the need of users from different terminal platforms.

Regarding the business of music cloud, the investment in Duomi Music of RMB19 Million represented 42.69% of the shares of Duomi Music was completed during the first half of the year. The development of Duomi Music showed a good momentum with excellent performance in the growth and vitality of users and reached a leading standard in the market. According to the monitoring data of iResearch for the first quarter of 2012, 55.1% of the users downloaded the Duomi music software to enjoy music.

### **Business Outlook for the second half of 2012**

Looking forward to the second half of 2012, the industry will still face uncertainty. The Group’s management aims to strengthen the following business operations:

For music content, the Company will conduct a full range of exploration on the depth and breadth of the Composer Plan and commence the two major projects: “The post-90s artists” and “Commune of Beauty Icons” in which the Company will expand to the field of artist management from the field of content production. Besides, the Company will continue to reinforce the improvement in functions of the A8.com website and construct a more convenient and practical sharing platform for original music. The Company also plans to kick off the “Seventh A8 Original China Music Contest” in August to collect more original contents of good quality.

For the traditional business, we will continue to strengthen our cooperation with the three major telecom operators in order to grasp the development opportunity of wireless music. We forecast the scale of music market for China Mobile in 2012 remains steady as compared with 2011 while China Unicom and China Telecom present rapid growth. We will retain the leading No.1 position for China Mobile and move up to first tier for China Telecom and China Unicom backed by the resources on contents and promotion channel we built up over the years.

For mobile internet business, the Company will build the distribution platform for digital contents and mobile application through the cooperation with telecom operators and handset manufacturers: 1) Continue to expand and deepen the cooperation with leading handset manufacturers while proactively explore the cooperation with internet corporations and internet applications and expand the operation scope. From the level of products, the Company will seize the market and expand its market shares based on the traditional music services and by taking music APP as the breakthrough. 2) Continue to deepen the cooperation with the three major telecom operators. For MM Project, there will be intensive precision so that simple business cooperation can be enhanced as cooperation in overall support service to operation and a new model in cooperation with operators can be established. 3) Strengthen the industrial chain layout of the Company through prudent investment strategies.

## Management Discussion and Analysis

Regarding music cloud business in 2012, the Group will further integrate and optimize the resources of the associated companies to reduce the operating cost, improve efficiency, encourage innovation and speed up the development towards social network. Meanwhile, we will keep the leading position of Duomi Music's software in terms of total users and newly registered users.

The Board and the Management of A8 Music will continue to strive for the sustainable development of the Group with our staff.

### Share Option Schemes

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

The following table discloses movements in the Company's share options which are outstanding under the Pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") during the six months ended 30 June 2012:

Category of participants	Number of share options				At 30 June 2012	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK\$ per share
	At 1 January 2012	Granted during the period	Exercised during the period	Lapsed/forfeited during the period					
Other employees and eligible persons	339,860	-	(305,880)	(33,980)	-	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
<b>In aggregate</b>	339,860	-	(305,880)	(33,980)	-				

During the six months ended 30 June 2012, 305,880 share options granted under the Pre-IPO Share Option Scheme were exercised, 33,980 share options were lapsed following the end of exercise period.

The exercise prices of the share options granted under this scheme were determined based on different valuations of the Company. All such share options were accepted by the relevant employees or eligible persons with a nominal consideration of HK\$1.00. As at the date of this interim report, there is no outstanding share options granted under the Pre-IPO Share Option Scheme, and no further share option will be granted under the Pre-IPO Share Option Scheme.



## Management Discussion and Analysis

The following table discloses movements in the Company's share options which are outstanding under the share option scheme (the "Share Option Scheme") during the six months ended 30 June 2012:

Name/category of participants	At 1 January 2012	Exercised during the period	Granted during the period	Lapsed/ forfeited during the period	At 30 June 2012	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
<b>Directors of the Company</b>										
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
Mr. Lu Bin	2,340,000	-	-	-	2,340,000	25 March 2011	One-fourth of the Share Options will be vested every 12-month period starting from 11 May 2012	24 March 2016	2.41	2.26
	<u>2,795,441</u>	-	-	-	<u>2,795,441</u>					
<b>Senior Management of the Group</b>										
	600,000	-	-	-	600,000	25 March 2011	One-fourth of the Share Options granted will be vested every 12-month period starting from 20 September 2011	24 March 2016	2.41	2.26
	400,000	-	-	-	400,000	18 August 2011	One-fourth of the Share Options will be vested every 12-month period starting from 9 August 2012	17 August 2016	1.20	1.27
	<u>1,000,000</u>	-	-	-	<u>1,000,000</u>					
<b>Other employees and eligible persons</b>										
	2,202,640	-	-	-	2,202,640	15 October 2008	One-fourth of the Share Options will be vested every 12-month period starting from 15 October 2009	14 October 2018	1.184	1.15
	825,225	-	-	(153,675)	671,550	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
	108,000	-	-	-	108,000	24 December 2009	Minimum of 2 years and maximum of 4 years	24 December 2014	3.20	3.13
	4,102,000	-	-	(960,000)	3,142,000	25 March 2011	one-fourth of the Share Options granted will be vested every 12-month period starting from 25 March 2012	24 March 2016	2.41	2.26

## Management Discussion and Analysis

Name/category of participants	At 1 January 2012	Exercised during the period	Granted during the period	Lapsed/ forfeited during the period	At 30 June 2012	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
	800,000	-	-	(200,000)	600,000	18 August 2011	One-fourth of 600,000 Share Options will be vested every 12-month period starting from 18 December 2012 and One-fourth of 200,000 Share Options will be vested every 12-month period starting from 30 January 2013	17 August 2016	1.20	1.27
	8,037,865	-	-	(1,313,675)	6,724,190					
<b>In aggregate</b>	<b>11,833,306</b>	<b>-</b>	<b>-</b>	<b>(1,313,675)</b>	<b>10,519,631</b>					

During the six months ended 30 June 2012, no share option was granted under the Share Option Scheme, no share option granted under the Share Option Scheme was exercised either.

1,313,675 share options were lapsed following the resignations of the relevant employees and eligible persons, and no share option was cancelled during the six months ended 30 June 2012.

As at the date of this interim report, there were 9,695,956 outstanding share options and 9,231,214 un-granted share options under the Share Option Scheme, representing an aggregate of approximately 3.97% of the issued share capital of the Company as at the date of this interim report.

### Share Award Scheme

The Board has approved the adoption of the share award scheme ("**Share Award Scheme**") on 16 August 2010 ("**Adoption Date**") with Law Debenture Trust (Asia) Limited as the trustee (the "**Trustee**"). The Share Award Scheme will operate in parallel with the Company's Pre-IPO Share Option Scheme and the Share Option Scheme.

During the six months ended 30 June 2012, no awarded share was granted under the Share Award Scheme, 2,341,032 awarded shares were released to awardees, 2,047,872 awarded shares were lapsed following the resignations of the relevant employees and eligible persons.

During the six months ended 30 June 2012, the Company has neither issued and allotted any new shares to the Trustee pursuant to the terms of the Share Award Scheme nor instructed the Trustee to purchase the Company's existing shares on the market for the purpose of the Share Award Scheme.

As at the date of this interim report, there were 4,633,151 outstanding awarded shares and 32,307,429 un-awarded shares, representing an aggregate of approximately 80.16% of the Share Award Scheme Limit of the Company.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2012, the directors and chief executives of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules and the Code of Conduct for Securities Transactions by Directors of the Company (“Own Code”):

### Long positions in shares and underlying shares of the Company

Name of Director	Capacity	Long positions in shares and underlying shares			Approximate percentage of interest in the Company's issued share capital
		Ordinary shares	Underlying shares	Total	
Mr. Liu Xiaosong	Founder of a trust <sup>(1)</sup>	167,405,954	Nil	169,783,395	35.65%
	Beneficial owner	1,922,000	455,441 <sup>(2)</sup>		
Mr. Lu Bin	Beneficial owner	Nil	2,340,000 <sup>(2)</sup>	2,340,000	0.49%

Notes:

- Mr. Liu Xiaosong is the founder of a family trust which is deemed under SFO to be interested in all the shares held by Ever Novel Holdings Limited (“Ever Novel”) and Prime Century Technology Limited (“Prime Century”) in the Company. As at 30 June 2012, Prime Century directly held 122,371,905 shares and Ever Novel directly held 45,034,049 shares in the Company.
- Details of share options held by the Directors are shown in the section headed “Share Option Schemes”.

## Disclosure of Interests

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

#### Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian")<sup>(3)</sup>

Name of Director	Capacity	Long positions in the registered capital (RMB)	Approximate percentage of interest in the registered capital of the associated corporation
Mr. Liu Xiaosong	Beneficial owner	21,510,000	75%

*Notes:*

3. 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.

Save as disclosed above, as at 30 June 2012, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which had been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which had been notified to the Company and the Stock Exchange pursuant to the Model Code and Own Code.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2012, the persons or corporations (other than a director or chief executive of the Company) who had interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or had otherwise notified to the Company were as follows:

### Long positions in the shares of the Company

Name of substantial	shareholder Capacity	Long positions in the shares		Approximate percentage of interest in the Company's issued share capital
		Ordinary shares	Total	
HSBC International Trustee Limited	Trustee (other than a bare trustee) <sup>(1)</sup>	189,035,954	189,035,954	39.69%
River Road Investment Limited	Interest in controlled corporation <sup>(1)</sup>	167,405,954	167,405,954	35.15%
Knight Bridge Holdings Limited	Interest in controlled corporation <sup>(1)</sup>	167,405,954	167,405,954	35.15%
Ever Novel	Interest in controlled corporation <sup>(1), (2)</sup> Beneficial owner	122,371,905 45,034,049	167,405,954	35.15%
Prime Century	Beneficial owner <sup>(1), (2)</sup>	122,371,905	122,371,905	25.69%

#### Notes:

1. HSBC International Trustee Limited is the trustee of family trusts which, through intermediate holding companies (including but not exclusively River Road Investment Limited, Knight Bridge Holdings Limited, Ever Novel and Prime Century), exercise or control the exercise of one third or more voting power at the general meetings of such companies and is deemed under the SFO to be interested in the shares of the Company held by such companies (189,005,954 shares in total). The rest 30,000 shares is held by HSBC International for its other clients.
2. As at 30 June 2012, Prime Century directly held 122,371,905 shares and Ever Novel directly held 45,034,049 shares in the Company. Ever Novel was entitled to exercise or control the exercise of one third or more of the voting power at the general meeting of Prime Century and was deemed to be interested in the 122,371,905 shares in the Company held directly by Prime Century.

Save as disclosed above, as at 30 June 2012, no person or corporation other than the directors or chief executives of the Company had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company.



## Disclosure of Interests

### ISSUE OF SHARES

During the period ended 30 June 2012, the Company issued an aggregate of 305,880 new shares upon the exercise of the share options granted under the Pre-IPO Share Option Scheme to subscribe for 305,880 shares at a weighted average issue price of HK\$0.64 per share with gross consideration of HK\$196,651.20.

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

During the period ended 30 June 2012, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the period ended 30 June 2012, all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules were met by the Company, except for the deviation from code provision A.2.1 providing for the roles of chairman and chief executive officer (the "CEO") to be performed by different individuals.

Mr. Liu Xiaosong has diversified experience in the technology, media and telecommunication industry and has been being responsible for overall management and strategic planning of the Group. The Board considered that Mr. Liu is able to lead the Board in making better business decision for 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 reporting period.

### COMPLIANCE WITH THE MODEL CODE

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

### AUDIT COMMITTEE

The audit committee, which comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters. The audit committee has reviewed the Group's unaudited Interim Accounts for the six months ended 30 June 2012.

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

Hong Kong, 16 August 2012