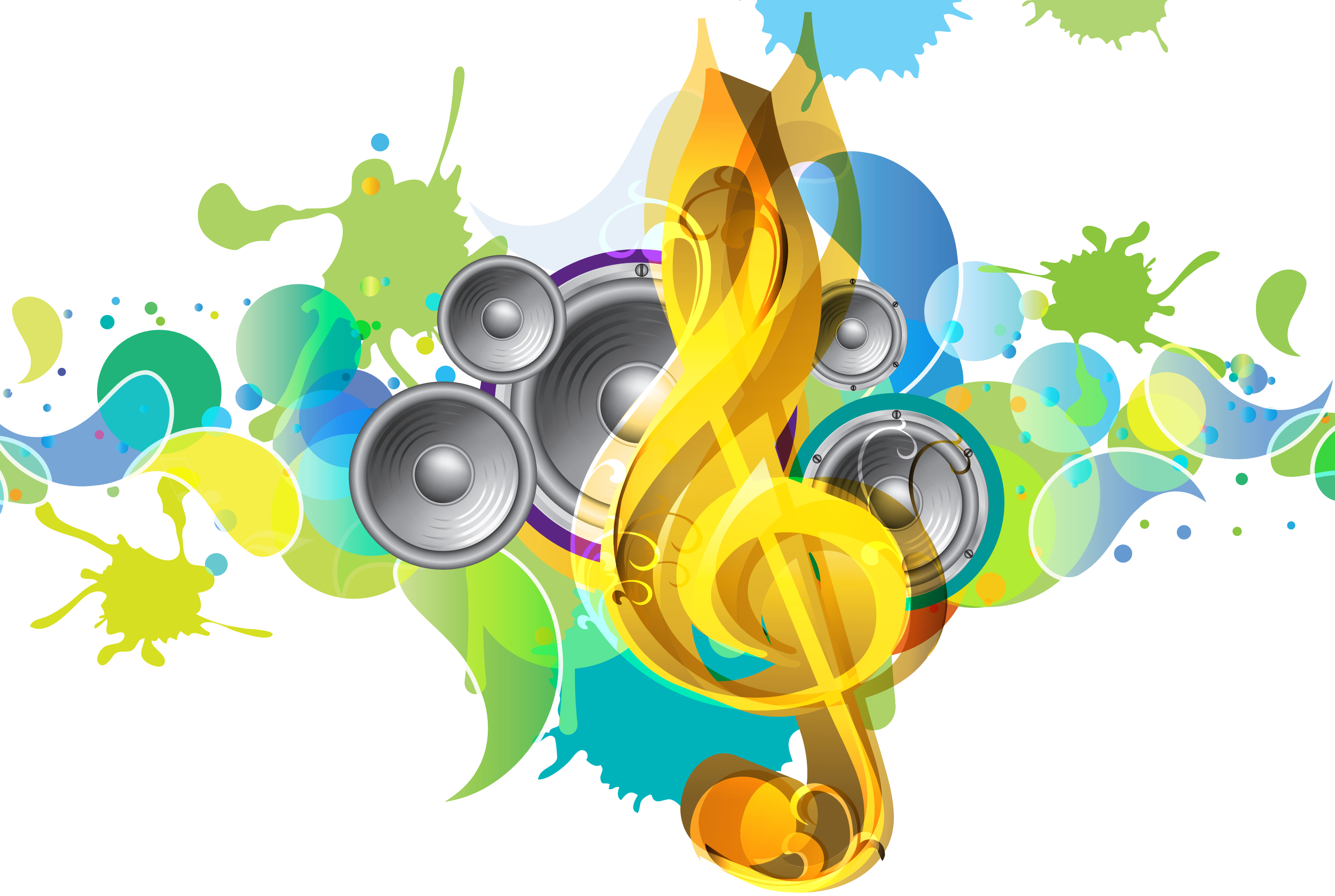
A8 DIGITAL MUSIC HOLDINGS LIMITED
A8 電媒音樂控股有限公司

(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 2012 年報



我的音乐无处不在!

My Music Everywhere!

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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

JOINT 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

STOCK CODE
00800

CONSOLIDATED RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**345,093**	483,587	681,839	707,148	706,079
Profit before tax	**(26,684)**	18,156	47,433	118,592	94,968
Income tax expense	**(3,328)**	(5,241)	(5,115)	(16,423)	(14,168)
Profit for the year	**(30,012)**	12,915	42,318	102,169	80,800
Attributable to:					
Owners of the Company	**(29,868)**	12,687	41,765	102,008	80,170
Non-controlling interests	**(144)**	228	553	161	630
	(30,012)	12,915	42,318	102,169	80,800

CONSOLIDATED ASSETS, LIABILITIES AND EQUITY

	As of 31 December				
	2012	2011	2010	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**709,839**	668,352	641,032	602,121	479,334
Total liabilities	**(194,573)**	(127,574)	(119,514)	(119,343	(113,548
Non-controlling interests	**(106)**	–	(826)	(811)	(650)
	515,160	540,778	520,692	481,967	365,136

The consolidated results of A8 Digital Music Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2012 and the consolidated assets, liabilities and equity of the Group as at 31 December 2012 are those set out in the audited financial statements.

Liu Xiaosong
Chairman

Business Outlook

Business Review in 2012

The mobile internet industry in China keeps fast growth in 2012. The user scale reached over 500 million and the market size reached RMB54.9 billion in 2012, representing a 96.4% growth as compared to 2011 according to the statistics published in January 2013 by iResearch. The contribution mainly came from the higher growth of the mobile shopping. At the same time, the status quo of the music market is changing; the copyright protection is improving. Following the pirated links incorporated in the criminal law in 2011, the amendments of "Copyright Law" is also under intense focus to protect the interests of the copyright owner to the greater extent, which, in the end, would forge "pay for music in the internet" model. However, up to today, the music models in mobile internet is still in investments period and the benefit from mobile internet is still to be proved in future.

For the Group, we disposed some traditional wireless value-added business that is to be replaced in the future as we anticipated. The Group launched the operation service to the application of mobile Internet based on our accumulated channel advantages, and made some progress. Meanwhile, the Group deployed the music cloud business to accumulate the users and achieved a higher level till now.

Regarding UGC music and accumulation of valuable copyrights, we made great strides and significant achievements. The Group further explored the "Composer Plan" in 2012. The Group has accumulated more than 120 music copyrights through the plan in 2012 and so a leading position in music company industry regarding the annual number of new songs in the Greater China Region. As well, the market share of hot music reached 21%. Through the promotion of UGC songs, the market value of the "composers" improved, which in turn strengthened the cooperation between the Group and the "composers" and the Group's reputation based on the healthy ecosystem.

The overall wireless music market is driven by the telecom operators, especially China Telecom and China Unicom, who progressively focused on the development of their music business. The Group's revenue from music and music related business reached RMB226 million in 2012. We further consolidate our leading position in the wireless music industry and in the China Mobile's wireless music market, as well as rank top 3 in the list of music service providers to China Telecom, from which the revenue generated represents an increase of 30.6% 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:

– First, we extended the close cooperation with telecom operators, like the "Operational Support to Digital Content Channels" with the China Mobile MM (Mobile Market) base, providing the products and functional 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 with the operators on mobile internet products and channels, but also helps the Group to accumulate experiences and resources in various digital products business of mobile internet.

– Second, the Group refined the extended 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 with the coverage of the music products in the 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.

The Group continues to invest the music cloud business with current goal of to user accumulations, and obtained a certain scale users.

1. The Group invested USD 6 million to Duomi Music Holding Limited ("Duomi Music") acquiring 13,853,868 preferred shares, after the RMB19 million investments to Duomi Music in 2011. The independent investors followed this investment like Huayi Brother. Currently the Group holds 42.73% (assuming after conversion of preferred shares) interests of Duomi Music. Duomi Music has accumulated over 100 million users at the end of 2012 and keeps a higher growth rate. According to the wireless music market research report in 2012 published by iiMedia Research Group, 57.6% mobile music users enjoyed music through Duomi Music, and this ratio ranked No.1 in last three years.

2. The Group made some progress in the home entertainment market; we have finished the R&D of the home wireless music system with great experience, and established the cooperation with several audio manufacturers.

3. We launched a revolutionary music application – Jing.fm, which makes users find their favorite music quickly and simply through "saying the character" of music by natural language description. The both version of Web and Application has been launched and was evaluated favorably.

Business Outlook for 2013

Looking forward to 2013, the trend in legalization of music copyright and the monetization of mobile Internet music is expected to have bright future. Meanwhile, mobile internet users scale and the revenue scale will have a significant growth. We also believe that the operation of the mobile Internet application (APP) will show the attractive development space.

In 2013, the Group will continue to strengthen and consolidate the music business from content, channels and products, continue to increase investment to build a platform for music distribution and promotion services for "composers", as well as the service platform to users, and put efforts to explore the business model.

For music contents, the Group will optimize the "Composer Plan" to improve the song's quality and involve more top players. We will continue to strengthen A8.com website as a platform for artists and users.

For wireless music business, we will continue to strengthen our cooperation with China Mobile, China Telecom and China Unicom, develop and provide the wireless music product and application to keep up with the changes of wireless music under the mobile internet trend. We forecast that the music revenue scale of China Mobile, China Telecom and China Unicom in 2013 will increase significantly compared with 2012. We will retain the leading position in wireless music market backed by our resources on contents and promotion channel, and the diversified products for the mobile market.

Regarding to music cloud business that provides music service to users directly, the Group will obtain users and improve user's stickiness, offer music service directly and explore the revenue model and business model through the operation of Jing.fm, home entertainment streaming device and the investment to Duomi Music.

Meanwhile, based on the user base advantage and the operation advantage on digital music industry, the Group will explore the combination of online and offline music business.

For mobile internet business, there will be more applications in the market as the smart phone penetration rate increases. Based on our past years accumulated advantages and experience, we will cooperate with mobile manufactures and telecom operators to promote and operate the digital music content and mobile applications. We will extend the cooperation with applications of mobile internet, integrate the billing resources of mobile operators and third party's payment resources including Ali Pay to provide integrated payment solutions. This solution will provide the payment service for the applications of mobile internet and digital contents including game, e-reading etc. At the same time, we will deploy the business in the industry through the cautious and proper investment strategy.

The Board of A8 Music will continually work with all staffs for the sustainable development of the Group.

Business Review

Revenue and profit attributable to owners of the Company

For the year ended 31 December 2012, the revenue of the Group amounted to approximately RMB345.1 million, representing a decrease of 28.6% as compared with 2011 (2011: approximately RMB483.6 million).

The decline in revenue was mainly due to the down trend of our MVAS business plus our active focus on mobile business, we disposed some traditional wireless value-added business that is to be replaced in the future as we anticipated. We have actively optimized our business through co-operation with more telecom carriers and handset manufacturers, as well as other mobile internet partners. However, the transformation in business still need time to cover the downturn of revenue.

For the year ended 31 December 2012, the loss attributable to the owners of the Company amounted to approximately RMB29.9 million, as compared with a profit of approximately RMB12.7 million in 2011.

Cost of services provided

For the year ended 31 December 2012, cost of services provided by the Group amounted to approximately RMB223.1 million, representing a decrease of approximately 22.0% as compared with 2011 (2011: approximately RMB285.9 million).

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

Revenue share with mobile operators was charged from 15% to 70% of the total revenue received from mobile users and it averaged at approximately 39.9% of the total revenue for the year ended 31 December 2012, representing an increase of 3.3% as compared with 2011 (2011: approximately 36.5%). The increase was mainly due to the change of product mix. Ringback tone services ("RBT") had gone up to 55.8% of the total revenue from 51.0% in 2011, which were normally charged at a higher revenue share.

Revenue share with business alliances averaged at approximately 18.1% of the total revenue for the year ended 31 December 2012, remaining almost the same level as 2011 (2011: approximately 17.8%).

Gross profit

For the year ended 31 December 2012, the gross profit of the Group amounted to approximately RMB116.3 million, representing a decrease of approximately 37.5% as compared with 2011 (2011: approximately RMB186.1 million). The overall gross profit margin of the Group decreased from 38.5% in 2011 to 33.7% in 2012. The decrease was mainly due to the increase of revenue share with mobile operators which related to the increasing ratio of Ringback tone services.

Other income and gains, net

For the year ended 31 December 2012, the other income and gains of the Group were approximately RMB19.8 million, representing an increase of approximately 69.9% as compared with 2011 (2011: net gain of approximately RMB11.6 million).

The increase was mainly due to the increase of interest income, government grant released and fair value gain on conversion option embedded in preferred shares amounted to approximately RMB3.9 million, RMB2.6 million and RMB1.6 million respectively.

Selling and marketing expenses

For the year ended 31 December 2012, the selling and marketing expenses of the Group amounted to approximately RMB90.1 million, decreased by 27.4% as compared with 2011, representing 26.1% of total revenue (2011: approximately RMB124.0 million, representing 25.6% of total revenue). Among the selling and marketing expenses, 69.7% were the promotion and marketing cost related to the Ringback tone services, whose ratio over total revenue was increasing during the period.

Administrative expenses

For the year ended 31 December 2012, the administrative expenses of the Group amounted to approximately RMB50.3 million, representing a decrease of approximately 5.8% as compared with 2011 (2011: approximately RMB53.5 million).

The decrease was mainly due to the decrease of share option expense and other administrative expenses of approximately RMB5.5 million and RMB2.6 million, respectively, which were partly offset by the increase of amortization expense and rental expense amounted to approximately RMB3.5 million and RMB1.5 million, respectively.

Other expenses, net

For the year ended 31 December 2012, the other expenses, net of the Group amounted to approximately RMB2.7 million, representing an increase of approximately 179.4% as compared with 2011, which mainly comprised the impairment losses of accounts receivable and other receivables that were in default and loss on disposal of investments at fair value through profit or loss amounted to approximately RMB1.2 million, RMB0.8 million and RMB0.6 million, respectively (2011: approximately RMB1.0 million).

Share of losses of associates

For the year ended 31 December 2012, share of losses of associates for the Group amounted to approximately RMB19.5 million as compared with share loss of an associate of approximately RMB1.1 million in 2011. The increase mainly comprised share of loss of Duomi Music amounted to approximately RMB19.0, which we acquired a 42.69% interest pursuant to the share subscription agreement dated 19 September 2011, the acquisition has been completed on 23 April 2012.

Income tax

For the year ended 31 December 2012, the income tax expenses of the Group amounted to approximately RMB3.3 million, representing a decrease of 36.5% as compared with 2011 (2011: approximately RMB5.2 million).

The effective tax rate of the Group was negative of 12.4% in 2012 (2011: approximately 28.9%). As a result of the new Corporate Income Tax Law in China, the statutory tax rates were 7.5%, 15%, 25% for the respective operating subsidiaries of the Group for 2012 (2011: 0%,15%, 24% and 25%, respectively). The tax expenses for the period were mainly the reversal of deferred tax assets, the final income tax settlement differences for 2011 and the tax charges contributed by certain profitable subsidiaries of the Group.

Liquidity and Financial Resources

As at 31 December 2012, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, restricted cash, time deposits with original maturity of more than three months and investments at fair value through profit or loss amounted to approximately RMB387.2 million (2011: approximately RMB434.4 million). Approximately RMB337.7 million, or approximately 87.2% of the Group's cash and cash equivalents, was denominated in RMB.

As at 31 December 2012, the Group had bank borrowings amounted to approximately RMB69.6 million, and the gearing ratio which is measured by the net borrowings over the total assets was 9.8%.

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 2012, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Non-current Assets

As at 31 December 2012, the total non-current assets of the Group amounted to approximately RMB248.3 million (2011: approximately RMB141.1 million). The increase was mainly due to the increase of purchases of property, plant and equipment which included the construction cost of A8 building and the increase of subscription for Duomi Music preferred shares, which amounted to approximately RMB75.0 million and RMB39.5 million respectively. These were partly offset by the decrease of deposit for investment in associate and deferred tax asset of approximately RMB8.0 million and RMB3.4 million, respectively.

Current Assets and Current Liabilities

As at 31 December 2012, the total current assets of the Group amounted to approximately RMB461.6 million (2011: approximately RMB527.3 million). The decrease was mainly due to the decrease of time deposits with original maturity of more than three months and prepayments, deposits and other receivable of approximately RMB63.6 million and RMB16.6 million respectively, which were partly offset by the increase of cash and cash equivalent and restricted cash of approximately RMB16.9 million in total. The turnover days of accounts receivable is 56 days (2011: 52 days).

As at 31 December 2012, the total current liabilities of the Group amounted to approximately RMB118.0 million (2011: approximately RMB112.9 million). The increase was mainly due to the increase of other payable and accruals and accounts payable of approximately RMB6.7 million and RMB3.8 million respectively, which were partly offset by the decrease of current portion of deferred income and tax payable amounted to approximately RMB3.3 million and RMB2.1 million, respectively.

Cash Flow

Net cash outflow from operating activities of the Group for the year ended 31 December 2012 was approximately RMB4.3 million, resulted from cash outflow from operations of approximately RMB2.0 million and tax paid of approximately RMB2.3 million.

Net cash outflow from investing activities of the Group for the year ended 31 December 2012 was approximately RMB36.2 million, resulted from the cash outflow of purchases of property, plant and equipment, prepayment to construction in progress and purchases of intangible assets amounted to approximately RMB70.8 million, RMB8.2 million and RMB3.6 million, respectively; it was also due to the cash outflow of acquisition of Duomi Music preferred shares and 15% shareholdings in a jointly controlled entity amounted to approximately RMB26.4 million and RMB3.5 million, respectively, which were partly offset by time deposits with original maturity more than three months and interest received of approximately RMB63.6 million and RMB14.4 million, respectively.

Net cash inflow from financing activities of the Group for the year ended 31 December 2012 was approximately RMB54.6 million, representing the cash inflow from the interest-bearing loan of approximately RMB56.6 million which was partly offset by the related interest paid amounted to approximately RMB2.4 million.

Contingent Liabilities

As at 31 December 2012, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2012, the Group employed 251 employees (2011: 287 employees). However, the average headcounts of year 2012 was 260 while it was 322 in year 2011. 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 2012, including directors' emoluments, amounted to approximately RMB51.5 million, representing a decrease of approximately 11% as compared with 2011 (2011: approximately RMB57.7 million), which was mainly due to the combine effect of staff streamline, wage growth and severance packages for departing staff during 2012.

Event after the reporting period

The Company proposed to raise approximately HK$342,920,000 (before expenses) by way of rights issue of 952,564,752 rights shares at a subscription price of HK$0.36 per rights share on the basis of two rights shares for every existing share held on the record date (i.e. 27 February 2013). Further details of the Company's rights issue are set out in the Company's circular dated 30 January 2013 and prospectus dated 28 February 2013. The rights issue became unconditional on 19 February 2013.

DIRECTORS

Executive Directors

Mr. Liu Xiaosong, aged 47, 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 co-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 is a director of Duomi Music Holding Ltd. ("Duomi Music"), he also acts as the director of A8 Music Group Limited, Total Plus Limited, Phoenix Success 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 ("Knight Bridge"), Ever Novel Holdings Limited ("Ever Novel") and Prime Century Technology Limited ("Prime Century"), 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).

Mr. Lu Bin, aged 43, an executive Director and the Chief Financial Officer of the Company. 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 Fisher Scholar Award. 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 18 years' experience in strategic planning of corporate finance, finance management, equity investment, etc., and over 10 years' diversified working experience and in-depth understanding in the telecommunication and internet industries. Mr. Lu jointed the Company in February 2011 as Chief Financial Officer and was appointed as an executive director on 19 August 2011. Mr. Lu is also a director of Duomi Music.

Independent non-executive Directors

Mr. Chan Yiu Kwong, aged 48, 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 a joint company secretary of Hi Sun and a joint 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.

Ms. Wu Shihong, aged 55. Ms. Wu has extensive experience in the information technology industry. She joined IBM China in 1985 and held the position of General Manager for channel management of IBM China from May 1997 to February 1998. She then acted as the General Manager of Microsoft China Co. Ltd. until August 1999. From December 1999 to December 2002, she was a Vice President of TCL Corporation as well as the General Manager of TCL Information Technology Industrial (Group) Co. Limited. She is an independent non-executive director of TCL Multimedia Technology Holdings Limited (Stock Code: 01070.HK) since June 2007. Ms. Wu founded Shanghai Blackspace Info. Tech. Co. Limited in May 2008 and has been the Chairman and Chief Executive Officer since then until February 2012. Ms. Wu was appointed as an independent non-executive Director on 27 March 2012.

Mr. Zeng Liqing, aged 43, 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 Executive Managing Director. He was appointed as an independent non-executive Director on 23 October 2009.

SENIOR MANAGEMENT OF THE GROUP

Mr. Su Wei, aged 37, the Chief Operation Officer of the Group. He graduated from the Shanghai University of Finance and Economics with a Bachelor's degree in Money and Banking in 1998 and further obtained a Master Business Administration degree from Donghua University in 2006. Mr. Su has years of diversified working experience in corporate internal management, investments, mergers and acquisitions, project financing, reorganization, and has in-depth knowledge in the internet industry. He has worked for Shanghai Pudong Road & Bridge Construction Co., Ltd (Shanghai Stock Exchange: 600284), Shanda Computer (Shanghai) Co., Ltd., etc. Mr. Su joined the Group in March 2010 and he is now responsible for the Group's strategy, investment, operation management and informatization. Mr. Su also acts as the director of Duomi Music.

Mr. Liu Xiaosong and Mr. Lu Bin are also the Senior Management of the Group, please refer to page 10 for their resume.

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 2012.

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 loss for the year ended 31 December 2012 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 114.

No interim dividend was declared for the six months ended 30 June 2012 and the Board does not recommend the payment of final dividend for the year ended 31 December 2012.

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 of the Company dated 28 May 2008 (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 2012 are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year ended 31 December 2012 are set out in notes 31 and 32 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") 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 2012, the Company issued 305,880 new shares upon the exercise of the shares options granted under the Pre-IPO Share Option Scheme to subscribe for 305,880 shares at a weighted average issue price of approximately HK$0.64 per share, the gross consideration of the exercised share options granted under the Pre-IPO Share Option Scheme was approximately HK$196,651.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2012 are set out in note 34 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2012, the Group's retained profits and share premium account amounting to approximately RMB226,683,000 and RMB185,434,000, respectively. It provides a total of approximately RMB412,117,000 to be available for distribution.

As at 31 December 2012, the Company's reserves available for distribution amounted to approximately RMB206,515,000.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, revenues from the five largest customers of the Group accounted for approximately 80% of the Group's total revenues while revenues from the largest customer for the Group accounted for approximately 50% of the Group's total revenues. In addition, for the year ended 31 December 2011, purchases 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
Mr. Lu Bin

Non-executive Director:
Mr. Li Wei (resigned on 27 March 2012)

Independent non-executive Directors:
Mr. Chan Yiu Kwong
Mr. Zeng Liqing
Ms. Wu Shihong (appointed on 27 March 2012)
Mr. Hui, Harry Chi (resigned on 27 March 2012)

In accordance with article 87(1) of the Articles, 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. Chan Yiu Kwong, Mr. Zeng Liqing and Ms. Wu Shihong. 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 11 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 their appointment or re-designation, subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to Articles, 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 payment in lieu of such notice, 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 39 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 2012.

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 2012.

Save as disclosed in note 39 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 39 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 2012, 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

Name of Director	Nature of interest	Number of shares: Ordinary shares	Number of shares: Underlying Shares (under equity derivatives of the Company)	Approximate percentage of interest in the Company's issued share capital *(note 1)*
Mr. Liu Xiaosong	Founder of trust *(note 2)*	167,463,954	Nil	35.16%
	Beneficial Owner	1,922,000	455,441 *(note 3)*	0.50%
Mr. Lu Bin	Beneficial Owner	Nil	2,340,000 *(note 3)*	0.49%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2012 (i.e. 476,282,376 Shares).

2. 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 2012, Prime Century directly held 122,371,905 shares and Ever Novel directly held 45,092,049 shares in the Company.

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 associated corporation	Name of Director	Nature of Interest	Registered capital/no. of shares held	Approximate percentage of interest
Huadong Feitian *(Note 1)*	Mr. Liu	Beneficial owner	RMB21,510,000 *(Note 3)*	75%
Duomi Music *(Note 2)*	Mr. Liu	Interest of controlled corporation	35,435,640 *(Note 4)*	32.71%

Notes:

1. Huadong Feitian is a limited liability company incorporated in the PRC 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.

2. Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at 31 December 2012, the Company was interested in approximately 46.38% of the issued share capital of Duomi Music through its wholly-owned subsidiary, Phoenix Success Limited, and therefore Duomi Music is an associated corporation of the Company. Mr. Liu, through his wholly-owned company, Fortune Light Investments Limited ("Fortune Light"), held approximately 32.71% of the issued share capital of Duomi Music.

3. This represents the amount of registered capital of Huadong Feitian held by Mr. Liu.

4. This represents the number of shares of Duomi Music held by Mr. Liu.

Save as disclosed, as at 31 December 2012, none of the Directors, chief executives and their respective associates had any interest or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to section 352 of the SFO to be entered into the register referred to therein; or are required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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 32 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:

Name/category of participants	At 1 January 2012	Exercised during the year	Granted during the year	Lapsed/ forfeited during the year	At 31 December 2012	Date of grant of share options	Vesting period of share options	End of exercise period	Exercise price of share options HK$ per share
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$0.16 to HK$0.74 per share
In aggregate	339,860	(305,880)	–	(33,980)	–				

During the year ended 31 December 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 the Pre-IPO Share Option 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 annual report, there is no outstanding share options granted under the Pre-IPO Share Option Scheme, and no further share option will be granted under this Scheme.For further information of the Pre-IPO Share Option Scheme, please refer to note 32 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:

Name/category of participants	At 1 January 2012	Exercised during the period	Granted during the period	Lapsed/ forfeited during the period	At 31 December 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
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
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
	2,795,441	–	–	–	2,795,441					
Senior Management of the Group	600,000	–	–	–	600,000	25 March 2011	One-fourth of 600,000 Share Options 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
	1,000,000	–	–	–	1,000,000					

Name/category of participants	At 1 January 2012	Exercised during the period	Granted during the period	Lapsed/ forfeited during the period	At 31 December 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
Other employees and eligible persons	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	–	–	(365,525)	459,700	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	–	–	(1,356,000)	2,746,000	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
	800,000	–	–	(800,000)	0	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	–	–	(2,521,525)	5,516,340					
In aggregate	11,833,306	–	–	(2,521,525)	9,311,781					

During the year ended 31 December 2012, no share option was granted under the Share Option Scheme and no share option granted under the Share Option Scheme was exercised or cancelled, 2,521,000 share options granted under the Share Option Scheme were lapsed following the resignation of the relevant employees and eligible persons.

The following table sets out the details of the Company's share options as at 21 March 2013.

Total number of share options	**As at 21 March 2013 (immediately before adjustment*)**
Granted	34,821,586
Exercised	4,995,400
Lapsed/cancelled	20,516,155
Outstanding	9,310,031

* As a result of the Rights Issue, adjustment has been made, among others, to the number of the share options to subscribe for Shares granted pursuant to the Share Option Scheme with effect from 22 March 2013.

After the aforesaid adjustment upon the completion of the rights issue, the total number of the outstanding share options has been adjusted from 9,310,031 to 12,210,105 on 22 March 2013. Since adjustment and up to the date of this annual report, 1,053,232 share options were lapsed following the resignation of relevant employees and eligible persons. As at the date of this annual report, there were outstanding share options carrying the rights to subscribe for 11,156,873 Shares which represented 0.78% of the issued share capital of the Company.

Please refer to note 32 to the financial statements for further information of the Share Option Scheme and the value of share options granted.

SHARE AWARD SCHEME

The Board has approved the adoption of a share award scheme (the "Share Award Scheme") on 16 August 2010 ("Adoption Date") for the purpose of providing incentives and rewards to its Directors, executive officers, employees and other eligible persons. Law Debenture Trust (Asia) Limited (the "Trustee") acts as the trustee for the Share Award Scheme. The Share Award Scheme will operate in parallel with the Company's Pre-IPO Share Option Scheme and the Share Option Scheme.

During the year ended 31 December 2012, no awarded shares were granted under the Share Award Scheme, the Trustee has not purchased any of the Company's existing Shares on the market for the purpose of the Share Award Scheme, 2,683,000 awarded shares were released to awardees, 2,670,000 awarded shares were lapsed following the resignations of the relevant employees and eligible persons.

As at the date of this annual report, there were 2,654,000 outstanding awarded shares and 32,307,000 un-awarded shares under the Share Award Scheme, representing approximately 5.76% and 70.10% respectively of the Share Award Scheme.

Further details of the Scheme are disclosed in note 33 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2012, 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 *(note 1)*
HSBC International	Trustee (other than a bare trustee) *(note 2)*	189,093,954	39.70%
River Road	Interest in controlled corporation *(note 2)*	167,463,954	35.16%
Knight Bridge	Interest in controlled corporation *(note 2)*	167,463,954	35.16%
Ever Novel	Interest in controlled corporation *(note 3)*	122,371,905	25.69%
	Beneficial Owner *(note 3)*	45,092,049	9.47%
Prime Century	Beneficial Owner *(note 3)*	122,371,905	25.69%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 31 December 2012 (i.e. 476,282,376 Shares).

2. HSBC International Trustee Limited ("HSBC International") is the trustee of family trusts of Mr. Liu Xiaosong, which, through intermediate holding companies (including but not exclusively River Road, 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 (167,463,954 Shares in total).

3. As at 31 December 2012, Prime Century directly held 122,371,905 shares and Ever Novel directly held 45,092,049 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 2012, the Directors are not aware of any other person or corporation other than the Directors or chief executives of the Company whose interests are set out in the section "Directors' and chief executives' interests in shares and underlying shares" above having an interest or short position in the shares or underlying shares of the Company representing 5% or more of the issued share capital of the Company which is required to be recorded pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

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

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

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

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.

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

The Nokia Project Subcontract Agreements

Reference is made to the announcement of the Company dated 4 November 2011. Since 25 October 2011, Beijing Caiyun Online Technology Co. Ltd. (北京彩雲在線技術開發有限公司, "Beijing Caiyun") is directly owned as to 44.74% by Mr. Liu Xiaosong and thus an Associate of Mr. Liu, who is the executive Director, a Substantial Shareholder of the Company, Beijing Caiyun therefore become a Connected Person of the Company, and the Nokia project subcontract agreements entered into by Huadong Feitian and Beijing Caiyun on 30 April 2011 (the "Nokia Project Subcontract Agreements") begun to constitute a continuing connected transaction for the Company from 25 October 2011. The Company has complied with the applicable reporting and disclosure requirements under Chapter 14A of the Listing Rules.

The principal terms of the Nokia Project Subcontract Agreements are as follows:

Background Information

On 30 April 2011, Huadong Feitian entered into the Nokia project agreements (the "Nokia Project Agreements") with Nokia Alliance Internet Services Company Limited (the "Nokia Alliance", an independent third Party). Pursuant to the Nokia Project Agreements, Huadong Feitian agreed to develop certain music related application software and cooperate on the operation of the Comes With Music (Yue Sui Xiang) service; and Nokia Alliance agreed to pay Huadong Feitian the development price (the "Development Price") while the revenue to be derived from the cooperation on the operation of Comes With Music (Yue Sui Xiang) service will be split between Nokia Alliance and Huadong Feitian according to the agreed revenue sharing model.

Upon the signing of the Nokia Project Agreements, on 30 April 2011, Huadong Feitian entered into the Nokia Project Subcontract Agreements with Beijing Caiyun, pursuant to which Beijing Caiyun agreed to undertake certain work to be performed by Huadong Feitian under the Nokia Project Agreements; and Huadong Feitian agreed to pay Beijing Caiyun the agreed share of the Development Price and the agreed share of revenue to be derived from the Comes With Music (Yue Sui Xiang) service.

Subject Matter:

Subcontracting of certain development and operation work to be performed by Huadong Feitian under the Nokia Project Agreements to Beijing Caiyun, including but not limited to the provision of work space, hardware devices, appropriate technical support, post technical operation and maintenance, music library management, back support, etc.

Consideration payable to Beijing Caiyun:

a. For the software development, 60% of the Development Price upon deducing certain costs to be incurred from the provision of human resources and hardware devices.

b. For the operation of the Comes With Music (Yue Sui Xiang) service:

   (a) 70% of the full track revenue in the first year upon the signing of the Nokia Project Subcontract Agreements and to be adjusted from the second year onward; and

   (b) 20% of the ringtone revenue.

Duration:

It is expected that the duration of the Nokia Project Subcontract Agreements shall be basically the same as the term of the Nokia Project Agreements, under which the work relating to the software development will be completed around in April 2012 and the work relating to the cooperation on the operation of the Comes With Music (Yue Sui Xiang) service will be terminated on or around 30 April 2014.

ANNUAL CAP

The maximum aggregate annual value, i.e. the annual cap, for the Nokia Project Subcontract Agreements for each of the financial years ending 31 December 2011 (commencing from 25 October 2011), 31 December 2012, 31 December 2013 and 31 December 2014 (expiring on 30 April 2014) are RMB1,293,415 (approximately HK$1,587,013), RMB4,199,764 (approximately HK$5,153,085), RMB3,138,916 (approximately HK$3,851,431) and RMB1,251,390 (approximately HK$1,535,448), respectively, which are determined by reference to the agreed share of the Development Price to which Beijing Caiyun shall be entitled and the estimated amount of revenue arising from the operation of the Comes With Music (Yue Sui Xiang) service in each of the financial years from 2011 to 2014.

The Company's independent non-executive Directors have reviewed and confirmed that the continuing connected transactions under the Nokia Project Subcontract Agreements carried out during the financial year ended 31 December 2012 had been entered into (i) in the ordinary and usual course of business of the Company; (ii) the terms and price had been arrived at after arm's length negotiations and are on normal commercial terms; (iii) are fair and reasonable and are in the interests of the Group and the Shareholders as a whole; and (iv) the amount of relevant transactions under the Nokia Project Subcontract Agreements for the year ended 31 December 2012 has not exceeded the cap disclosed in the previous announcement.

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 date 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.

EVENT AFTER THE REPORTING PERIOD

Details of the significant event of the Group after the reporting period are set out in note 43 to the financial statements.

AUDIT COMMITTEE

The Audit Committee of the Company, all members of which are independent non-executive Directors with the Chairman Mr. Chan Yiu Kwong having appropriate professional qualifications and experience in financial matters, 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 2012.

AUDITORS

The financial statements for the year ended 31 December 2012 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 12 June 2008.

ON BEHALF OF THE BOARD
Liu Xiaosong
Chairman

Hong Kong
26 March 2013

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 Corporate Governance Code (formerly known as the "Code on Corporate Governance Practices" and came into effect from the date 1 April 2012, 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 recommendations:

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

(b) recommended best practices for guidance only, which listed issuers are encouraged but not required, to state whether they have complied with and to give considered reasons for any 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 2012, 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 as explained on page 32 in the section headed "Chairman and Chief Executive Officer".

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 is collectively responsible for promoting the success of the Company by directing and supervising its affairs. The Board also oversees the Group's businesses, strategic decisions and performance as well as performs the corporate governance duties.

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.

All Directors have full and timely access to the advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The senior management of the Company provides all Directors with monthly updates on the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

All directors take decisions objectively in the interests of the Company and 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 on 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.

The day-to-day management, administration and operation of the Company are delegated to the CEO and the senior management. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers. The Board has given clear directions as to such officers's powers and responsibilities, and periodically reviews their delegated functions and work tasks to ensure such arrangements remain appropriate to the Company's needs. The Board has the full support of the CEO and the senior management to discharge its responsibilities.

Board Composition

The Board currently comprises 5 members, consisting of 2 executive Directors and 3 independent non-executive Directors. None of the members of the Board is related to one another.

During the year ended 31 December 2012,the Board has at all time met the relevant requirements of the Listing Rules relating to having at least one-third of independent non-executive Directors, comprising at least three independent non-executive Directors and having one independent non-executive Director with the appropriate professional qualifications and accounting and related financial management expertise.

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.

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 Nomination Committee 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 or payment in lieu of such notice.

Each of the independent non-executive Directors has entered into a service contract with the Company 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 or payment in lieu of such notice.

Each of the non-executive Directors is appointed by a formal letter of appointment 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 or the first annual general meeting respectively after appointment.

The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board regularly to ensure that the Board 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 Nomination Committee 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 recommendations of the Nomination Committee are then put to the full Board for decision.

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

The Company's circular dated 17 April 2013 contains detailed information of the directors standing for re-election.

Induction and Continuous Professional 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 and the Company's business and governance policies. Such induction shall be supplemented with meetings with senior management of the Company.

Development and training of Directors is an ongoing process so that they can perform their duties appropriately and their contribution to the Company remains informed and relevant. The Company Secretary regularly circulates details of training courses which may be of interest to Directors. All Directors are encouraged to attend relevant training courses with appropriate emphasis on the roles, functions and duties of the Directors, at the Company's expense.

The Company has received written confirmations from all of the Directors on their training records for the year ended 31 December 2012, the Board has reviewed and evaluated such training records.

According to the forementioned records, a summary of the training received by the Directors is set out as follows:–

Name of Directors	**Reading regulatory updates**	**Attending or participating briefings/seminars/ conferences/workshops relevant to the Company's businesses and directors' duties**
Executive Directors		
Mr. Liu Xiaosong	√	√
Mr. Lu Bin	√	√
Independent non-executive Directors		
Mr. Chan Yiu Kwong	√	√
Ms. Wu Shihong	√	√
Mr. Zeng Liqing	√	√

Board and General 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 2012, four Board meetings were held for reviewing and approving the financial and operating performance and material transactions, 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 2012 are set out below:

Name of Directors	**Attendance/Number of Meetings**
Mr. Liu Xiaosong *(Chairman)*	4/4
Mr. Lu Bin	4/4
Mr. Chan Yiu Kwong	4/4
Mr. Zeng Liqing	4/4
Ms. Wu Shihong *(Note 1)*	4/4
Mr. Li Wei *(Note 2)*	N/A
Mr. Hui, Harry Chi *(Note 2)*	N/A

Notes:

1. Ms. Wu Shihong was appointed as an independent non-executive Director on 27 March 2012, four Board meetings were held since her appointment till 31 December 2012;

2. Mr. Li Wei and Mr. Hui, Harry Chi resigned as the non-executive Director and the independent non-executive Director with effect from 27 March 2012. No Board meeting was held from 1 January 2012 till their resignation.

Apart from the abovementioned 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%.

During the period ended 31 December 2012, two general meetings were held by the Company, the attendance records of each Director at the general meetings are set out below:

Name of Director	**Attendance/Number of Meetings**
Mr. Liu Xiaosong	2/2
Mr. Lu Bin	2/2
Mr. Chan Yiu Kwong	2/2
Mr. Zeng Liqing	2/2
Ms. Wu Shihong *(Note 1)*	2/2
Mr. Li Wei *(Note 2)*	N/A
Mr. Hui, Harry Chi *(Note 2)*	N/A

Notes:

1. Ms. Wu Shihong was appointed as an independent non-executive Director on 27 March 2012, two general meetings were held since her appointment till 31 December 2012;

2. Mr. Li Wei and Mr. Hui, Harry Chi resigned as the non-executive Director and the independent non-executive Director with effect from 27 March 2012. No general meeting was held from 1 January 2012 till their resignation.

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.

Directors are normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

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. 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 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 year ended 31 December 2012.

BOARD COMMITTEES

The Board has established three committees, namely, the Remuneration Committee, Audit Committee and Nomination 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 website of the Stock Exchange www.hkexnews.hk and the Company's website www.a8.com.

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 Ms. Wu Shihong (Chairman, independent non-executive Director), Mr. Liu Xiaosong (executive Director) and Mr. Zeng Liqing (independent non-executive Director). The majority of them are independent non-executive Directors.

The primary objectives of the Remuneration Committee include:

- To make recommendations to the Board on the establishment of procedures for developing remuneration policy and structure for all Directors and the senior management;
- To determine and approve, with delegated responsibility, the remuneration packages of individual executive Directors and the senior management ; and
- To make recommendations on the remuneration of the non-executive Directors by reference to the market practice and conditions as well as the time commitment and responsibilities devoted by the individual non-executive Directors.

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

For the year ended 31 December 2012 and in 2013 up to the date of this Annual Report, two meetings were held by the Remuneration Committee on 5 March 2012 and 22 March 2012 respectively for considering, among other things, change of the chairman of the Remuneration Committee, reviewing and considering the updated terms of reference, making proposal to the Board for considering making adjustments in the independent non-executive Directors' remuneration and reviewing all Directors' and senior management remuneration with reference to the Group's and individual performance. The attendance records of the Remuneration Committee are set out below:

Name of Members	**Attendance/ Number of Meetings**
Ms. Wu Shihong *(Chairman) (note 1)*	1/1
Mr. Liu Xiaosong	2/2
Mr. Zeng Liqing	2/2
Mr. Hui, Harry Chi (*note 2)*	0/1

Notes:

(1) Ms. Wu Shihong was appointed as a member as well as the Chairman of the Remuneration Committee effective from 27 March 2012. One meeting of the Remuneration Committee was held since her appointment and up to the date of this Annual Report.

(2) Mr. Hui, Harry Chi resigned as a member of the Remuneration Committee with effect from 27 March 2012.

Audit Committee

The Audit Committee comprises three independent non-executive Directors, namely Mr. Chan Yiu Kwong (Chairman, independent non-executive Director), Ms. Wu Shihong (independent non-executive Director), and Mr. Zeng Liqing (independent non-executive Director), which comprises 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 three meetings during the year ended 31 December 2012 and in 2013 up to the date of this Annual Report to, among other things, 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 Members	Attendance/ Number of Meetings
Mr. Chan Yiu Kwong *(Chairman)*	3/3
Mr. Zeng Liqing	3/3
Ms. Wu Shi Hong *(Note 1)*	2/2
Mr. Hui, Harry Chi *(Note 2)*	0/1

Note:

1. Ms. Wu Shihong was appointed as a member of the Audit Committee on 27 March 2012, two meetings of the Audit Committee were held after her appointment until the date of this Annual Report.

2. Mr. Hui, Harry Chi resigned as a member of the Audit Committee with effect from 27 March 2012, one meeting of the Audit Committee was held from 1 January 2012 until his resignation.

The Company's annual results for the year ended 31 December 2012 have been reviewed by the Audit Committee.

Nomination Committee

The Nomination Committee comprises 3 members, namely Mr. Liu Xiaosong (Chairman, executive Director), Ms. Wu Shihong (independent non-executive Director) and Mr. Zeng Liqing (independent non-executive Director). The majority of them are independent non-executive Directors.

The primary objectives of the Nomination Committee include:

- To review the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations on any proposed changes to the Board to implement the Company's corporate strategy;

- To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

- To assess the independence of independent non-executive Directors; and

- To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive.

As at the date of the annual report, one meeting was held by the Nomination Committee on 22 March 2013, to review the structure, size and composition (including the skills, knowledge and experience) of the Board, assess the independence of independent non-executive Directors, recommend the Directors stand for re-election at the forth coming annual general meeting of the Company, etc. The attendance record of such meeting is set out below:

Name of Members	Attendance/ Number of Meetings
Mr. Liu Xiaosong *(Chairman)*	1/1
Mr. Zeng Liqing	1/1
Ms. Wu Shi Hong	1/1

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 2012.

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 inside 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 2012.

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 and other 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 page 39.

During the year ended 31 December 2012, 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	1,367
Non-audit services	
– other services	278
Total	1,645

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 internal audit department 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.

SHAREHOLDER RIGHTS

Procedures for shareholders to convene EGM

Pursuant to Article 58 of the Articles, any one or more Shareholder holding at the date of deposit of the requisition not less than one-tenth (1/10) of the paid-up capital of the Company carrying the right of voting at the general meetings shall at all times have the right, by written requisition (the "**Requisition**", and for the Shareholder concerned, the "**Requisitionist**") to the Board or the Company, to require an EGM to be called by the Board for the transaction of any business specified in such requisition.

The Requisition must state the objects of the meeting, contain the full name(s) of the Requisitionist(s), his/her/their contact details and identification, be signed by the Requisitionist and be deposited at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, the Company's principal place of business in Hong Kong, for the attention of the Company Secretary.

An EGM shall be held within two (2) months after the deposit of such Requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting, the Requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Board shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for Shareholders to put forward enquiries to the Board or put forward proposals at general meetings

To put forward enquiries to the Board, the Shareholders may either contact the Company Secretary through email at ir@a8.com, or submit a written notice of their enquiries with their detailed contact information to the Company Secretary at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, the Company's principal place of business in Hong Kong, or directly raise questions at general meetings.

To put forward proposals at general meetings, the Shareholders are required to submit a written notice of their proposals with their full names, detailed contact information and identification to the Company Secretary at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong, the Company's principal place of business in Hong Kong.

Procedures for Shareholders to propose a person for election as a Director

As regards the procedure for Shareholders to propose a person for election as a Director, Shareholders are requested to follow the requirements and procedures as set out in the Corporate Governance Section of the Company's website.

Voting by poll

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.

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Group pays much attention to maintaining good relationships with Shareholders and investors. The Group has set up a specialized department to deal with investor relationships affairs. We try to achieve two-way communication with Shareholders, investors and media through consistent, timely and transparent disclosure of information.

The Group strictly adheres to non-selective disclosure guidelines to ensure that communications with Shareholders, investors and the media are open and fair. No material, non-public information is made available to any individual on a selective basis. The Group experienced difficulties and faced various challenges during the past two years but we kept the consistent communication with the market through publishing results announcement and reports, holding investors conferences, arranging meetings with investors in person or via conference calls, participating in various investor forums, distributing press release etc to provide necessary information to form their own judgments and provided feedback to management in order to improve operations and corporate governance of the Group.

Meanwhile, the Group continues to update the contents including business information, financial information, announcements, corporate governance etc stated on the website of www.a8.com and investor relationship's website http://ir.a8.com to improve transparency. The public can communicate with the Group through online communication column, phone call and ir's mailbox which are handled and replied by professional IR employees.

The general meetings of the Company provide a good opportunity for communication between the Board and the Shareholders. The Company considers the AGM as an important event and all Directors make efforts to attend. The Chairman of the Board as well as the chairmans of each Board Committees will be available to communicate with the Shareholders face to face. A representative (usually the partner) of the external auditor also attends the AGM and will take questions from Shareholders relating to their audit of the Company's financial statements.

The Company understands that increasing transparency in capital market participants will improve corporate governance and be beneficial to the long-term development of the Company. The Company welcomes investors and Shareholders to share opinions and suggestions for the development of the Company to the Company's investor relation team via email or telephone.

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Shenzhen, 518057 PRC
Telephone: +86 755 3332 6316
Email: ir@a8.com
Website: www.a8.com
http://ir.a8.com

Company Secretary

For the year ended 31 December 2012, Ms. Gao Keying ("Ms. Gao", who is an employee of the Company) and Ms. Ho Yip, Betty ("Ms. Ho") act as joint Company Secretaries for the Company.

The Directors all have access to the Company Secretaries who are responsible for ensuring that Board procedures, and all applicable law, rules and regulations are properly followed. The Company Secretaries also keep fully updating the Board with all legislative, regulatory and corporate governance developments.

During the year under review, both Ms. Gao and Ms. Ho have taken over 15 hours of relevant professional training to refresh their skills and knowledge.

Constitutional Documents

During the year under review, there was no change to the Articles of Association of the Company. A copy of the latest consolidated version of it is available on the websites of the Company and the Stock Exchange.

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 114, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 the 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 2012, and of the Group's loss 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
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
26 March 2013

Consolidated Income Statement

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE		345,093	483,587
Business tax		(5,717)	(11,546)
Net revenue	6	339,376	472,041
Cost of services provided		(223,094)	(285,916)
Gross profit		116,282	186,125
Other income and gains, net	6	19,770	11,637
Selling and marketing expenses		(90,055)	(124,032)
Administrative expenses		(50,347)	(53,472)
Other expenses, net		(2,735)	(979)
Share of losses of associates	19	(19,526)	(1,123)
Share of loss of a jointly-controlled entity	20	(73)	–
(LOSS)/PROFIT BEFORE TAX	7	(26,684)	18,156
Income tax expense	10	(3,328)	(5,241)
(LOSS)/PROFIT FOR THE YEAR		(30,012)	12,915
Attributable to:			
Owners of the Company	11	(29,868)	12,687
Non-controlling interests		(144)	228
		(30,012)	12,915
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
			(Restated)
Basic (RMB per share)		(0.05)	0.02
Diluted (RMB per share)		(0.05)	0.02

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
(LOSS)/PROFIT FOR THE YEAR	**(30,012)**	12,915
OTHER COMPREHENSIVE LOSS		
Exchange realignment	**(122)**	(530)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(30,134)**	12,385
Attributable to:		
Owners of the Company	**(29,990)**	12,157
Non-controlling interests	**(144)**	228
	(30,134)	12,385

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	135,520	60,509
Prepaid land lease payments	15	26,240	26,825
Goodwill	16	1,515	1,515
Prepayment for acquisition of property, plant and equipment		8,160	4,593
Intangible assets	17	29,077	30,855
Investments in associates	19	3,651	4,177
Investment in a jointly-controlled entity	20	3,427	–
Deposit for acquisition of an investment	21	–	8,000
Deferred tax assets	29	1,193	4,594
Conversion option embedded in preferred shares	30	12,600	–
Debt portion of preferred shares	30	26,890	–
Total non-current assets		248,273	141,068
CURRENT ASSETS			
Accounts receivable	22	53,100	55,058
Prepayments, deposits and other receivables	23	21,275	37,839
Investments at fair value through profit or loss	24	1,371	1,880
Restricted cash balances	25	2,940	–
Time deposits with original maturity of more than three months	25	8,318	71,911
Cash and cash equivalents	25	374,562	360,596
Total current assets		461,566	527,284
CURRENT LIABILITIES			
Accounts payable	26	30,262	26,483
Other payables and accruals	27	79,096	72,439
Tax payable		5,113	7,201
Deferred income		3,533	6,808
Total current liabilities		118,004	112,931
NET CURRENT ASSETS		343,562	414,353
TOTAL ASSETS LESS CURRENT LIABILITIES		591,835	555,421
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowing	28	69,567	13,000
Deferred tax liabilities	29	1,382	1,643
Deferred income		5,620	–
Total non-current liabilities		76,569	14,643
Net assets		515,266	540,778

Consolidated Statement of Financial Position (continued)

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	31	**4,203**	4,201
Reserves	34(a)	**510,957**	536,577
		515,160	540,778
Non-controlling interests		**106**	–
Total equity		**515,266**	540,778

Liu Xiaosong
Director

Lu Bin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2012

	Attributable to owners of the Company													
	Issued capital RMB'000 (note 31)	Share premium account RMB'000 (note 31)	Shares held under share award scheme RMB'000 (note 33)	Merger reserve RMB'000 (note 34(a))	Surplus contributions RMB'000 (note 34(a))	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note 34(a))	Reserve fund RMB'000 (note 34(a))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity 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 year	–	–	–	–	–	–	–	–	–	–	12,687	12,687	228	12,915
Other comprehensive loss for the year:														
Exchange realignment	–	–	–	–	–	–	(530)	–	–	–	–	(530)	–	(530)
Total comprehensive income for the year	–	–	–	–	–	–	(530)	–	–	–	12,687	12,157	228	12,385
Disposal of a subsidiary (note 35(b))	–	–	–	–	–	–	–	–	(63)	–	63	–	(1,054)	(1,054)
Exercise of share options	7	1,298	–	–	–	(901)	–	–	–	–	–	404	–	404
Issue of shares	99	–	(99)	–	–	–	–	–	–	–	–	–	–	–
Equity-settled share-based payment arrangements	–	–	–	–	–	9,700	–	–	–	–	–	9,700	–	9,700
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	–	(2,217)	–	–	–	–	2,217	–	–	–
Employee share award scheme:														
– shares purchased for share award scheme	–	–	(2,175)	–	–	–	–	–	–	–	–	(2,175)	–	(2,175)
– release of award shares	–	–	738	–	–	(738)	–	–	–	–	–	–	–	–
Transfer from retained profits	–	–	–	–	–	–	–	–	2,709	–	(2,709)	–	–	–
At 31 December 2011	4,201	184,959*	(1,816)*	29,135*	10,522*	20,394*	2,132*	10,833*	21,399*	4,422*	254,597*	540,778	–	540,778

Consolidated Statement of Changes in Equity (continued)

Year ended 31 December 2012

	Attributable to owners of the Company													
	Issued capital RMB'000 (note 31)	Share premium account RMB'000 (note 31)	Shares held under share award scheme RMB'000 (note 33)	Merger reserve RMB'000 (note 34(a))	Surplus contributions RMB'000 (note 34(a))	Employee share-based compensation reserve RMB'000	Exchange fluctuation reserve RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note 34(a))	Reserve fund RMB'000 (note 34(a))	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2011 and 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	-	540,778
Loss for the year	-	-	-	-	-	-	-	-	-	-	(29,868)	(29,868)	(144)	(30,012)
Other comprehensive loss for the year:														
Exchange realignment	-	-	-	-	-	-	(122)	-	-	-	-	(122)	-	(122)
Total comprehensive loss for the year	-	-	-	-	-	-	(122)	-	-	-	(29,868)	(29,990)	(144)	(30,134)
Capital contribution from non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	250	250
Exercise of share options	2	475	-	-	-	(324)	-	-	-	-	-	153	-	153
Equity-settled share-based payment arrangements	-	-	-	-	-	4,219	-	-	-	-	-	4,219	-	4,219
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	-	(2,198)	-	-	-	-	2,198	-	-	-
Employee share award scheme:														
– release of award shares	-	-	441	-	-	(441)	-	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	-	-	-	-	-	244	-	(244)	-	-	-
At 31 December 2012	4,203	185,434*	(1,375)*	29,135*	10,522*	21,650*	2,010*	10,833*	21,643*	4,422*	226,683*	515,160	106	515,266

* These reserve accounts comprise the consolidated reserves of RMB510,957,000 (2011: RMB536,577,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		(26,684)	18,156
Adjustments for:			
Depreciation	7	1,454	1,860
Amortisation of prepaid land lease payments	7	585	586
Amortisation of intangible assets	7	8,579	5,062
Gain on disposal of subsidiaries	6	–	(794)
Gain on disposal of investments at fair value through profit or loss	6	–	(235)
Loss on disposal of investments at fair value through profit or loss	7	555	–
Gain on disposal of items of property, plant and equipment	6	(6)	–
Fair value (gain)/loss on investments at fair value through profit or loss	7	(598)	393
Fair value gain on conversion option embedded in preferred shares	6	(1,575)	–
Government grant released	6	(2,613)	–
Bank interest income	6	(14,414)	(10,516)
Imputed interest income	6	(215)	–
Share of losses of associates	19	19,526	1,123
Share of loss of a jointly-controlled entity	20	73	–
Impairment of accounts receivable	7	1,184	776
Impairment of other receivables	7	820	2,666
Write-back of impairment of accounts receivable	7	–	(3,593)
Equity-settled share option expense	7	1,569	3,798
Equity-settled share award expense	7	2,650	5,902
		(9,110)	25,184
Decrease in accounts receivable		774	29,280
Decrease/(increase) in prepayments, deposits and other receivables		1,558	(13,911)
Increase/(decrease) in accounts payable		3,779	(18,282)
(Decrease)/increase in other payables and accruals		(3,997)	13,039
Increase/(decrease) in deferred income		4,958	(3,167)
Cash (used in)/generated from operations		(2,038)	32,143
Tax paid		(2,276)	(8,290)
Net cash flows (used in)/from operating activities		(4,314)	23,853

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of subsidiaries	35	–	878
Purchases of items of property, plant and equipment	14	(70,772)	(34,443)
Proceeds from disposal of items of property, plant and equipment		636	966
Purchases of intangible assets	17	(3,615)	(2,563)
Decrease in a prepayment for acquisition of an intangible asset		–	5,817
Purchase of investments at fair value through profit or loss		(1,000)	–
Proceeds from disposal of investments at fair value through profit or loss		1,552	17,336
Purchase of preferred shares		(26,386)	–
Deposit paid for acquisition of an investment		–	(8,000)
Purchase of an interest in a jointly-controlled entity		(3,500)	–
Purchase of an interest in an associate		–	(5,300)
Interest received		14,414	10,516
Increase in restricted cash		(2,940)	–
Increase in prepayments for acquisition of property, plant and equipment		(8,160)	(4,593)
Decrease/(increase) in short term time deposits with original maturity of more than three months		63,593	(47,062)
Net cash flows used in investing activities		(36,178)	(66,448)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		153	404
Purchase of award shares		–	(2,175)
New bank loan		56,567	13,000
Interest paid		(2,390)	(48)
Capital contribution from non-controlling shareholders		250	–
Net cash flows from financing activities		54,580	11,181
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		14,088	(31,414)
Cash and cash equivalents at beginning of year		360,596	392,540
Effect of foreign exchange rate changes, net		(122)	(530)
CASH AND CASH EQUIVALENTS AT END OF YEAR		374,562	360,596
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	194,039	110,390
Time deposits with original maturity of less than three months when acquired	25	180,523	250,206
Cash and cash equivalents as stated in the consolidated statement of financial position and the consolidated statement of cash flows		374,562	360,596

Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	101,750	97,855
Total non-current assets		101,750	97,855
CURRENT ASSETS			
Other receivables		125	–
Amounts due from subsidiaries	18	107,912	107,768
Cash and cash equivalents	25	13,525	16,138
Total current assets		121,562	123,906
CURRENT LIABILITIES			
Other payables and accruals		635	758
Total current liabilities		635	758
NET CURRENT ASSETS		120,927	123,148
Net assets		222,677	221,003
EQUITY			
Issued capital	31	4,203	4,201
Reserves	34(b)	218,474	216,802
Total equity		222,677	221,003

Liu Xiaosong
Director

Lu Bin
Director

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in 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 and conversion option embedded in preferred shares 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

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2012. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it 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 loses 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.

3.1 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

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

The adoption of the revised IFRSs has had no significant financial effect on these financial statements.

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	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 –*Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – *Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

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

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The Group expects to adopt the amendments from 1 January 2013.

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.

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 to 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 the 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 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and IFRIC 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in IFRIC 12. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and IFRIC 13 Jointly *Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

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

IFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in IAS 27 *Consolidated and Separate Financial Statements*, IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In June 2012, the IASB issued amendments to IFRS 10, IFRS 11 and IFRS 12 which clarify the transition guidance in IFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between IFRS 10 and IAS 27 or SIC 12 at the beginning of the annual period in which IFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

The amendments to IFRS 10 issued in October 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 rather than consolidate them. Consequential amendments were made to IFRS 12 and IAS 27 (Revised). The amendments to IFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in IFRS 10.

Consequential amendments were made to IAS 27 and IAS 28 as a result of the issuance of IFRS 10, IFRS 11 and IFRS 12. The Group expects to adopt IFRS 10, IFRS 11, IFRS 12, IAS 27 (Revised), IAS 28 (Revised), and the subsequent amendments to these standards issued in June and October 2012 from 1 January 2013.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. The Group expects to adopt IFRS 13 prospectively from 1 January 2013.

The IAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1 January 2013.

The IAS 19 (Amendments) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt the IAS 19 (Amendments) from 1 January 2013.

The IAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to set off” for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

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

The *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2013. 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) IAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

    In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) IAS 32 *Financial Instruments: Presentation*: Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

The Group is in the process of making an assessment of the impact of the new and revised IFRSs upon initial application, certain of which may be relevant to the Group's operation and may result in changes in the Group's accounting policies, and changes in presentation and measurement of certain items of the Group's financial information.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of the post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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 Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related 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 previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for 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 identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets 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 units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or 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.

Where goodwill has been allocated to a cash-generating unit (or 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 the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an 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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 depreciates them accordingly.

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 including 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.

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 softwares

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Music copyrights

Music copyrights are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of three 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.

Investments and other 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. 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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.

Subsequent measurement

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

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments 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 positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

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, in rare circumstances, 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 them. 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. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

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

Preferred shares held by the Group are separately presented as a debt portion and conversion option embedded in preferred shares. On initial recognition, the debt portion represents the residual between the fair value of the preferred shares and the fair value of the embedded conversion option. The debt portion is classified as loans and receivables and is subsequently measured at amortised cost using the effective interest method.

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 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 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 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 through the use of an allowance account and 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 and all collateral has been realised or has been transferred to the Group.

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 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, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it 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, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payable, other payables and accruals and interest-bearing bank borrowing.

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Loans and borrowings

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

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.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

- when 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 investments in subsidiaries, associates and joint ventures, when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when 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 investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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 cease 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 prevailing 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. Differences arising on settlement or translation of monetary items are recognised in the income statement.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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 prevailing 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 subsidiaries 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 payments transaction, 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.

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 payments, or is otherwise beneficial to the employee as measured at the date of modification.

3.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Equity compensation benefits (continued)

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.

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

Shares held for share award scheme

As disclosed in note 33 to the financial statements, the Group has set up a trust for the share award scheme, where the trust purchases shares issued by the Group, the consideration paid by the Company, including any directly attributable incremental costs, is presented as “Shares held for the Share Award Scheme” and deducted from the Group’s equity.

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.

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 their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(i) Judgements

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

Accounting for companies governed under contractual arrangements as subsidiaries

As further detailed in note 18(a) below, A8 Music Group Limited does not have equity ownership in certain subsidiaries of the Group (collectively "Subsidiaries under Contractual Agreements"). Nevertheless, under the contractual agreements entered into between the Subsidiaries under Contractual Agreements, their respective registered owners and certain subsidiaries of the Group, management has determined that the Group controls the financial and operating policies of the Subsidiaries under Contractual Agreements so as to obtain benefits from their activities. As such, the Subsidiaries under Contractual Agreements and their respective subsidiaries are accounted for as subsidiaries of the Group for accounting purposes.

(ii) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

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.

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 RMB200,020,000 (2011: RMB239,824,000) and RMB33,287,000 (2011: RMB61,488,000), 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:

	2012 RMB'000	2011 RMB'000
Revenue		
Ringtone services	29,818	53,404
Ringback tone services	192,412	246,448
Other music related services	3,375	8,966
Non-music related services	119,488	174,769
	345,093	483,587
Less: Business tax	(5,717)	(11,546)
Net revenue	339,376	472,041
Other income and gains, net		
Bank interest income	14,414	10,516
Imputed interest income	215	–
Government grant released (note)	2,613	–
Gain on disposal of investments at fair value through profit or loss	–	235
Gain on disposal of subsidiaries	–	794
Gain on disposal of items of property, plant and equipment	6	–
Fair value gains on investments at fair value through profit or loss	598	–
Fair value gain on conversion option embedded in preferred shares	1,575	–
Foreign exchange differences, net	191	68
Others	158	24
	19,770	11,637

Note:

A government grant has been received by the Group for developing high and new technology industry in Shenzhen in relation to Shenzhen's government policy. There are no unfulfilled conditions or contingencies relating to this grant.

7. (LOSS)/PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Depreciation	**1,454**	1,860
Amortisation of intangible assets #	**8,579**	5,062
Amortisation of prepaid land lease payments #	**585**	586
Operating lease rentals in respect of office buildings	**7,373**	6,192
Auditors' remuneration	**1,367**	1,192
Employee benefit expense (including directors' remuneration (note 9)):		
Wages, salaries and bonuses	**39,195**	42,447
Welfare, medical and other expenses	**4,307**	5,342
Contributions to social security plans	**5,373**	6,030
Equity-settled share option expense	**1,569**	3,798
Equity-settled share award expense	**2,650**	5,902
	53,094	63,519
Impairment of accounts receivable***	**1,184**	776
Write-back of impairment of accounts receivable***	**–**	(3,593)
Impairment of other receivables***	**820**	2,666
Mobile and Telecom Charges*	**137,586**	176,629
Loss on disposal of investments at fair value through profit or loss***	**555**	–
Fair value (gains)/losses on investments at fair value through profit or loss**/***	**(598)**	393

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 income and gains, net" on the face of the consolidated income statement.

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

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Interest on bank loan	**2,390**	48
Less: Interest capitalised	**(2,390)**	(48)
	–	–

9. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

	2012	2011
	RMB'000	RMB'000
Fees	**275**	208
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**2,329**	2,303
Share-based payments	**738**	1,012
Pension scheme contributions	**94**	78
	3,161	3,393
	3,436	3,601

During the prior years, certain directors were granted share options, in respect of their services to the Group, under the share option schemes of the Company. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

Further details are set out in note 32 to the financial statements.

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

(a) Directors' remuneration (continued)

(i) Independent non-executive directors

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

2012

	Fees RMB'000	Bonuses RMB'000	Total remuneration RMB'000
Independent non-executive directors:			
Mr. Hui, Harry Chi#	16	–	16
Mr. Chan Yiu Kong	146	–	146
Mr. Zeng Liqing	57	–	57
Ms. Wu Shihong*	56	–	56
	275	–	275

2011

	Fees RMB'000	Bonuses RMB'000	Total remuneration RMB'000
Independent non-executive directors:			
Mr. Hui, Harry Chi	42	–	42
Mr. Chan Yiu Kong	124	–	124
Mr. Zeng Liqing	42	–	42
	208	–	208

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

* Appointed as independent non-executive director on 27 March 2012.

\# Resigned as independent non-executive director on 27 March 2012.

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

(a) Directors' remuneration (continued)

(ii) Executive directors and non-executive directors

	Fees RMB'000	Salaries, bonuses, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
2012					
Executive directors:					
Mr. Liu Xiaosong ("Mr. Liu")**	–	1,279	40	39	1,358
Mr. Lu Bin	–	1,050	698	55	1,803
		2,329	738	94	3,161
Non-executive director:					
Mr. Li Wei@	–	–	–	–	–
	–	2,329	738	94	3,161
2011					
Executive directors:					
Mr. Liu	–	1,272	129	35	1,436
Mr. Lu Bin	–	949	883	42	1,874
Ms. Ho Yip, Betty#	–	82	–	1	83
	–	2,303	1,012	78	3,393
Non-executive directors:					
Mr. Li Wei	–	–	–	–	–
Ms. Ho Yip, Betty*	–	–	–	–	–
	–	2,303	1,012	78	3,393

@ Resigned as non-executive director on 27 March 2012.

Resigned as executive director on 15 January 2011.

* Re-designated as non-executive director with effect from 15 January 2011 and resigned on 1 June 2011.

** Mr. Liu is also the chief executive of the Company.

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

(b) Five highest paid individuals

The five highest paid individuals included two (2011: two) directors, details of whose remuneration are set out above. Details of the remuneration of the remaining three (2011: three) non-director, highest paid individuals for the year are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, bonuses, allowances and benefits in kind	2,230	1,614
Equity-settled share award expense	451	2,081
Pension scheme contributions	214	126
	2,895	3,821

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

	Number of employees	
	2012	2011
Nil to RMB1,000,000	2	2
RMB1,000,001 to RMB2,000,000	1	–
RMB2,000,001 to RMB3,000,000	–	1
	3	3

(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 or non-director, highest paid individual waived or agreed to waive any emoluments.

10. 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 (2011: 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:

	2012 RMB'000	2011 RMB'000
Group		
Current – PRC		
Charge for the year	975	3,452
(Overprovision)/underprovision in prior years	(787)	1,575
Deferred (note 29)	3,140	214
Total tax charge for the year	3,328	5,241

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.

Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd. ("Yuesheng Feiyang"), 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 2012.

Shenzhen Yunhai Qingtian Cultural Broadcasting Co. Ltd. ("Yunhai Qingtian") was recognised as a newly set-up software production enterprise in 2010 and was therefore entitled to 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.

10. INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rates for the jurisdiction in which 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:

	2012					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Loss before tax	(733)		(25,951)		(26,684)	
Tax at the statutory tax rate	(121)	16.5	(6,488)	25.0	(6,609)	24.8
Preferential tax rates	–	–	(439)	1.7	(439)	1.6
Super-deduction of research and development expenditure	–	–	(921)	3.5	(921)	3.5
Adjustments in respect of current tax of previous periods	–	–	(787)	3.0	(787)	2.9
Income not subject to tax	(273)	37.2	(9)	–	(282)	1.1
Expenses not deductible for tax	394	(53.7)	5,028	(19.4)	5,422	(20.3)
Losses attributable to a jointly-controlled entity and associates	–	–	4,900	(18.9)	4,900	(18.4)
Tax losses utilised from previous periods	–	–	(24)	0.1	(24)	0.1
Tax losses not recognised	–	–	2,068	(8.0)	2,068	(7.7)
Tax charge at the Group's effective rate	–	–	3,328	(13.0)	3,328	(12.4)

	2011					
	Hong Kong		The PRC, excluding Hong Kong		Total	
	RMB'000	%	RMB'000	%	RMB'000	%
Profit/(loss) before tax	(3,567)		21,723		18,156	
Tax at the statutory tax rate	(589)	16.5	5,431	25.0	4,842	26.7
Preferential tax rates	–	–	(3,849)	(17.7)	(3,849)	(21.2)
Super-deduction of research and development expenditure	–	–	(912)	(4.2)	(912)	(5.0)
Adjustments in respect of current tax of previous periods	–	–	1,575	7.2	1,575	8.7
Income not subject to tax	(250)	7.0	(15)	(0.1)	(265)	(1.5)
Expenses not deductible for tax	839	(23.5)	2,886	13.3	3,725	20.5
Tax losses utilised from previous periods	–	–	(962)	(4.4)	(962)	(5.3)
Tax losses not recognised	–	–	1,087	5.0	1,087	6.0
Tax charge at the Group's effective rate	–	–	5,241	24.1	5,241	28.9

11. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated (loss)/profit attributable to owners of the Company for the year ended 31 December 2012 includes a loss of RMB1,801,000 (2011: RMB4,002,000) which has been dealt with in the financial statements of the Company (note 34(b)).

12. DIVIDENDS

No dividends have been paid or declared by the Company for the year ended 31 December 2012 (2011: Nil).

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

The calculation of the basic loss per share amount for the year ended 31 December 2012 is based on the loss for the year attributable to equity holders of the Company of RMB29,868,000 (2011: profit of RMB12,687,000) and the weighted average number of ordinary shares in issue less shares held under the share award scheme during the year ended 31 December 2012 of 612,801,000 (2011: 610,440,000, as restated).

The basic (loss)/earnings per share amounts for the years ended 31 December 2012 and 2011 have been adjusted to reflect the rights issue subsequent to the end of the reporting period (note 43).

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 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 the diluted earnings per share amount for the year ended 31 December 2011 is based on the profit for the year attributable to equity holders of the Company of RMB12,687,000 as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is 610,440,000 ordinary shares in issue less shares held under the share award scheme during the year ended 31 December 2011, as used in the basic earnings per share calculation, and the weighted average of 12,159,000 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, as adjusted for the rights issue subsequent to the end of the reporting period (note 43).

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
At 31 December 2011 and at 1 January 2012:						
Cost	11,520	1,452	2,094	4,010	55,817	74,893
Accumulated depreciation	(7,040)	(1,452)	(2,088)	(3,804)	–	(14,384)
Net carrying amount	4,480	–	6	206	55,817	60,509
At 1 January 2012, net of accumulated depreciation	4,480	–	6	206	55,817	60,509
Additions	763	73	348	100	75,811	77,095
Disposals	(558)	(56)	(16)	–	–	(630)
Depreciation provided during the year	(1,152)	(17)	(150)	(135)	–	(1,454)
At 31 December 2012, net of accumulated depreciation	3,533	–	188	171	131,628	135,520
At 31 December 2012:						
Cost	10,227	1,334	2,114	4,110	131,628	149,413
Accumulated depreciation	(6,694)	(1,334)	(1,926)	(3,939)	–	(13,893)
Net carrying amount	3,533	–	188	171	131,628	135,520

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Computer equipment RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 1 January 2011:						
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
At 1 January 2011, net of accumulated depreciation	5,884	207	113	227	8,251	14,682
Additions	1,064	71	–	9	47,577	48,721
Disposal of subsidiaries (note 35)	(23)	(21)	–	(24)	–	(68)
Disposals	(843)	(106)	–	(6)	(11)	(966)
Depreciation provided during the year	(1,602)	(151)	(107)	–	–	(1,860)
At 31 December 2011, net of accumulated depreciation	4,480	–	6	206	55,817	60,509
At 31 December 2011:						
Cost	11,520	1,452	2,094	4,010	55,817	74,893
Accumulated depreciation	(7,040)	(1,452)	(2,088)	(3,804)	–	(14,384)
Net carrying amount	4,480	–	6	206	55,817	60,509

15. PREPAID LAND LEASE PAYMENTS

	Group 2012 RMB'000	2011 RMB'000
Carrying amount at 1 January	**27,410**	27,996
Recognised during the year	**(585)**	(586)
Carrying amount at 31 December	**26,825**	27,410
Current portion included in prepayments, deposits and other receivables (note 23)	**(585)**	(585)
Non-current portion	**26,240**	26,825

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

As at 31 December 2012 and 2011, the entire leasehold land was pledged as security for the bank loan granted to the Group (note 28(a)).

16. GOODWILL

Group

	RMB'000
Cost at 1 January 2011	3,710
Disposal of a subsidiary (note 35)	(2,195)
Cost at 31 December 2011, 1 January 2012 and 31 December 2012	1,515

17. INTANGIBLE ASSETS

Group

	Deferred development costs	Trademarks licenses and software	Music copyrights	Total
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2012				
Cost at 1 January 2012, net of accumulated amortisation	–	29,115	1,740	30,855
Additions	–	2,128	4,673	6,801
Amortisation provided during the year	–	(7,326)	(1,253)	(8,579)
At 31 December 2012	–	23,917	5,160	29,077
At 31 December 2012:				
Cost	–	41,906	6,611	48,517
Accumulated amortisation	–	(17,989)	(1,451)	(19,440)
Net carrying amount	–	23,917	5,160	29,077
31 December 2011				
Cost at 1 January 2011, net of accumulated amortisation	–	13,254	–	13,254
Disposal of subsidiaries (note 35)	–	(1,995)	–	(1,995)
Additions	–	625	1,938	2,563
Transfer from a prepayment for acquisition of an intangible asset	–	22,095	–	22,095
Amortisation provided during the year	–	(4,864)	(198)	(5,062)
At 31 December 2011	–	29,115	1,740	30,855
At 31 December 2011:				
Cost	3,312	39,778	1,938	45,028
Accumulated amortisation	(3,312)	(10,663)	(198)	(14,173)
Net carrying amount	–	29,115	1,740	30,855

18. INVESTMENTS IN SUBSIDIARIES

	Company 2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	**74,333**	74,333
Capital contribution in respect of share-based compensation	**27,417**	23,522
	101,750	97,855

The amounts due from subsidiaries, included in the Company's current assets, 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. (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
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

18. INVESTMENTS IN SUBSIDIARIES (continued)

(a) (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 Culture 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. ("Tianlai") (notes (i) and (ii))*@	PRC	RMB20,000,000 Registered capital	–	100	Provision of mobile value-added services
江蘇廣視科貿發展有限公司 Jiangsu Guangshi Science and Trade Development Limited (notes (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 Tianxiu Information Technology Ltd. (notes (i) and (ii))*@	PRC	RMB10,000,000 Registered capital	–	100	Provision of mobile value-added services
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	Provision of mobile value-added services

18. INVESTMENTS IN SUBSIDIARIES (continued)

(a) (continued)

Company name	Place of incorporation/ establishment	Paid-up issued/registered capital	Percentage of equity/ interest attributable to the Company Direct	Indirect	Principal activities
普好有限公司 Total Plus Limited	Hong Kong	HK$97,045 Issued capital	–	100	Investment holding
北京布拉琪音樂文化傳媒有限公司 Beijing Bulaqi Music Cultural Broadcasting Co., Ltd. (notes (i) and (ii))*@	PRC	RMB1,000,000 Registered capital	–	100	Holding of music patent and licenses
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
北京環宇信誠軟件開發有限公司 Beijing Huanyu Xincheng Software Development Co., Ltd. ("Huanyu Xincheng") (note (ii))*@	PRC	RMB10,000,000 Registered capital	–	100	Dormant
深圳市掌翼天下有限公司 Shenzhen Zhangyi Tianxia Development Co., Ltd. (notes (i) and (ii))*@	PRC	RMB3,000,000 Registered capital	–	100	Development of home wireless music system
茂御有限公司 Phoenix Success Limited	Hong Kong	HK$1 Issued capital	100	–	Investment holding
北京悦音經典網絡科技有限公司 Beijing Yueyin Jingdian Network Technology Co., Ltd. (notes (i) and (ii))*@	PRC	RMB1,000,000 Registered capital	–	75	Provision of mobile value-added services

18. INVESTMENTS IN SUBSIDIARIES (continued)

(a) (continued)

* 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, Huanyu Xincheng or Tianlai 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 another member firm of the Ernst & Young global network.

(b) Controlled special purpose entity

The Company has set up a trust, A8 Digital Music share award trust (the "Trust"), for the purpose of administering the share award scheme established by the Company (note 33). In accordance with SIC 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	Administration and holding of the Company's shares for the share award scheme for the benefit of eligible employees

19. INVESTMENTS IN ASSOCIATES

	Group 2012 RMB'000	Group 2011 RMB'000
Share of net assets	**1,009**	1,535
Goodwill on acquisition	**2,642**	2,642
	3,651	4,177

Particulars of the associates are as follows:

Company name	Particulars of registered capital	Place of establishment	Percentage of ownership interest attributable to the Group	Principal activities
Shenzhen Ningmenghai Technology Co., Ltd. ("Ningmenghai") (notes (i) and (iii))*#	RMB5,000,000	PRC	19.34%	Provision of internet social network service
Duomi Music Holding Limited ("Duomi Music") (notes (ii) and (iii))*	USD50,000	Cayman Islands	42.69%	Provision of online and connected digital music service

Notes:

(i) As at 31 December 2012, the Group owned a 19.34% equity interest in Ningmenghai (2011: 19.34%). Although the Group holds less than 20% of the equity interest in Ningmenghai, in the opinion of the Company's directors, the Group is in a position to exercise significant influence over Ningmenghai having considered the prevailing widely dispersed shareholding structure of Ningmenghai.

(ii) On 19 September 2011, Phoenix Success Limited ("Phoenix Success"), a wholly-owned subsidiary of the Company, entered into a share subscription agreement with Duomi Music, pursuant to which Phoenix Success shall, inter alia, subscribe 42.69% shares of Duomi Music at a cash consideration of RMB19,000,000. In the prior year, a deposit of RMB8,000,000 was paid by the Group in relation to the proposed investment in Duomi Music and was classified as "Deposit for acquisition an investment" in the consolidated statement of financial position as at 31 December 2011. The transaction was completed in April 2012 and the deposit was reclassified to investment in associate.

(iii) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

* The above investments in associates are indirectly held by the Company.

The English name of the company represents the best effort made by management of the Company to directly translate its Chinese name as it did not register any official English name.

19. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2012 RMB'000	2011 RMB'000
Share of the associates' assets and liabilities:		
Current assets	34,517	1,519
Non-current assets	14,480	136
Current liabilities	(32,518)	(120)
Non-current liabilities	(28,593)	–
Net (liabilities)/assets	(12,114)	1,535
Share of the associates' results:		
Total income	3,911	806
Total expenses	(32,767)	(1,929)
Losses for the year	(28,856)	(1,123)
Losses in excess of investment cost not shared by the Group in current year	9,330	–
Losses for the year shared by the Group	(19,526)	(1,123)

20. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group 2012 RMB'000	 2011 RMB'000
Share of net assets	67	–
Goodwill on acquisition	3,360	–
	3,427	–

Particulars of the jointly-controlled entity are as follows:

Name	Particulars of issued shares held	Place of registration	Percentage of ownership interest	Principal activity
Nanjing Utooo Information Technology Co., Ltd. ("Utooo")	Registered and paid-up capital of RMB1,059,000	PRC	15%*	Mobile phone games provider

The above investment was not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

20. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (continued)

The English name of the company represents the best effort made by management of the Company to directly translate its Chinese name as it did not register any official English name.

* Notwithstanding that the Group owned a 15% equity interest in Utooo, in the opinion of the Company's directors, the Group is in a position to have joint control over Utooo having considered that the other shareholders have contractually agreed the sharing of control over key financial and operating activities of Utooo with the Group.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2012 RMB'000
Share of the jointly-controlled entity's assets and liabilities:	
Current assets	510
Non-current assets	4
Current liabilities	(447)
Net assets	67
Share of the jointly-controlled entity's results:	
Revenue	48
Total expenses	(121)
Income tax expense	–
Loss after tax	(73)

21. DEPOSIT FOR ACQUISITION OF AN INVESTMENT

As at 31 December 2011, the deposit for acquisition of an investment amounting to RMB8,000,000 represented the deposit paid in relation to the proposed acquisition of a 42.69% interest in Duomi Music pursuant to a share subscription agreement dated 19 September 2011 entered into by Duomi Music with, inter alia, Phoenix Success Limited, a wholly-owned subsidiary of the Company, for the subscription of shares in Duomi Music. 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. The acquisition has been completed during the year and the deposit was transferred to the investment in an associate.

22. ACCOUNTS RECEIVABLE

	Group 2012 RMB'000	2011 RMB'000
Accounts receivable	**56,683**	57,457
Impairment	**(3,583)**	(2,399)
	53,100	55,058

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to it within a period of 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its accounts receivable. Accounts receivable are non-interest-bearing.

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 2012 RMB'000	2011 RMB'000
Neither past due nor impaired:		
Within 1 month	**14,053**	20,401
Over 1 month but less than 2 months	**8,315**	16,262
Over 2 months but less than 3 months	**9,112**	11,056
Over 3 months but less than 4 months	**5,171**	2,460
Past due but not impaired:		
4 to 6 months	**9,328**	1,435
Over 6 months	**7,121**	3,444
	53,100	55,058

22. ACCOUNTS RECEIVABLE (continued)

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

	Group	
	2012	2011
	RMB'000	RMB'000
At 1 January	**2,399**	5,216
Impairment losses recognised (note 7)	**1,184**	776
Write-back of impairment (note 7)	**–**	(3,593)
At 31 December	**3,583**	2,399

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2012	2011
	RMB'000	RMB'000
Prepayments	**8,532**	10,712
Prepaid land lease payments (note 15)	**585**	585
Deposits and other receivables	**15,644**	29,208
Impairment	**(3,486)**	(2,666)
	21,275	37,839

The financial assets as at the end of the reporting period relate to receivables for which there was no recent history of default. The Group does not hold any collateral or other credit enhancements over these balances.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The movements in the provision for other receivables are as follows:

	Group 2012 RMB'000	2011 RMB'000
At 1 January	**2,666**	–
Impairment losses recognised (note 7)	**820**	2,666
At 31 December	**3,486**	2,666

Included in the above provision for other receivables is a provision for individually impaired receivables of RMB3,486,000 (2011: RMB2,666,000) with a gross carrying amount of RMB3,486,000 (2011: RMB3,381,000). The individually impaired receivables relate to a portion of the receivables that is not expected to be recovered.

Included in the Group's other receivables as at 31 December 2011 was a receivable of RMB11,000,000 due from Beijing Caiyun Online Technologies Co., Ltd. ("Beijing Caiyun") which was owned as to 44.74% by Mr. Liu upon the completion of domestic restructuring of Beijing Caiyun in October 2011, but prior to the completion of the acquisition of equity interest in Duomi Music by the Group as further detailed in note 21 to the financial statements. Upon the completion of the Group's acquisition of the equity interest in Duomi Music in April 2012, Beijing Caiyun becomes a subsidiary of Duomi Music.

24. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2012 RMB'000	2011 RMB'000
Listed equity investments in Mainland China, at fair value	**371**	1,880
Unlisted investment, at fair value	**1,000**	–
	1,371	1,880

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

The Group's unlisted investment represents a fund investment and the fair value was based on value quoted by the relevant financial institution.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**196,979**	110,390	**13,525**	16,138
Time deposits	**188,841**	322,117	**–**	–
	385,820	432,507	**13,525**	16,138
Less: Restricted cash	**(2,940)**	–	**–**	–
Time deposits with original maturity of more than three months	**(8,318)**	(71,911)	**–**	–
Cash and cash equivalents	**374,562**	360,596	**13,525**	16,138
Denominated in RMB	**325,024**	331,456	**4**	4
Denominated in other currencies	**49,538**	29,140	**13,521**	16,134
Cash and cash equivalents	**374,562**	360,596	**13,525**	16,138

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.

26. 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	
	2012	2011
	RMB'000	RMB'000
Within 1 month	**4,877**	5,160
1 to 3 months	**9,170**	10,178
4 to 6 months	**4,620**	3,785
Over 6 months	**11,595**	7,360
	30,262	26,483

The accounts payable are non-interest-bearing and are normally settled on 30-day to 180-day terms.

27. OTHER PAYABLES AND ACCRUALS

	Group 2012 RMB'000	2011 RMB'000
Other payables	**38,189**	25,528
Accruals	**40,907**	46,911
	79,096	72,439

28. INTEREST-BEARING BANK BORROWING

Group

	2012			2011		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Non-current						
Bank loan – secured	6.55%	2014-2015	69,567	7.05%	2014	13,000

	Group 2012 RMB'000	2011 RMB'000
Analysed into:		
Bank loan repayable:		
In the second year	**24,000**	–
In the third to fifth years, inclusive	**45,567**	13,000
	69,567	13,000

Notes:

(a) The Group's bank loan is secured by the pledge of the Group's leasehold land situated in Mainland China, which had a carrying value at the end of the reporting period of approximately RMB26,825,000 (2011: RMB27,410,000) (note 15).

(b) The Group's entire bank borrowing is guaranteed by a subsidiary as at the end of the reporting period.

(c) The Group's bank borrowing is denominated in RMB.

(d) The carrying amount of the Group's borrowing approximates to its fair value.

29. DEFERRED TAX

The movements in deferred tax assets/(liabilities) 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	Total RMB'000
At 1 January 2011	5,068	(813)	(913)	(177)	3,165
Deferred tax credited/(charged) to the income statement during the year (note 10)	(474)	–	260	–	(214)
At 31 December 2011 and 1 January 2012	4,594	(813)	(653)	(177)	2,951
Deferred tax credited/(charged) to the income statement during the year (note 10)	(3,401)	–	261	–	(3,140)
At 31 December 2012	1,193	(813)	(392)	(177)	(189)

29. DEFERRED TAX (continued)

The Group has tax losses arising in Mainland China of RMB12,108,000 (2011: RMB5,722,000) that will expire in one to five years for offsetting against future taxable profits. 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 enterprises 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 2012, 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 RMB280,065,000 at 31 December 2012 (2011: RMB276,188,000).

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

30. DEBT PORTION OF PREFERRED SHARES AND CONVERSION OPTION EMBEDDED IN PREFERRED SHARES

On 14 December 2012 (the "Completion Date"), Phoenix Success subscribed for 13,853,868 convertible redeemable preferred shares (the "preferred shares") at US$0.43 each for cash issued by Duomi Music. All the above preferred shares can be converted into ordinary shares at US$0.43 per share (subject to adjustments). The major terms of the preferred shares are set out below:

(i) Phoenix Success has the option to request all (but not less than all) the preferred shares it holds to be converted at any time, without the payment of any additional consideration, into fully-paid and non-assessable ordinary shares in Duomi Music.

(ii) From the beginning of the fourth anniversary of the Completion Date, Phoenix Success has the right to request Duomi Music to redeem all (but not less than all) of the preferred shares held by Phoenix Success for a redemption price per share equal to 140% of the subscription price of the preferred shares plus all accrued but unpaid dividends (subject to adjustment).

The Group classified the debt portion of the preferred shares in Duomi Music as loans and receivables and the conversion option embedded in preferred shares is deemed as held for trading and recognised at fair value through profit or loss on initial recognition. The fair values of the conversion option embedded in preferred shares on initial recognition and the end of the reporting period are determined by the directors of the Company with reference to the valuation performed by independent qualified valuers. Details of the method and assumptions used in the Black-Scholes-Merton Option Pricing Model in the valuation of the conversion option embedded in preferred shares are as follows:

	31 December 2012	14 December 2012
Expected volatility (i)	**53.45%**	55.62%
Dividend yield	**–**	–
Option life (Year(s))	**3.96**	4.0
Risk-free interest rate (ii)	**0.650%**	0.522%

Notes:

(i) Expected volatility was calculated by reference to annualised standard deviation of the continuously compounded rates of return on the weekly average adjusted share price of the comparable companies.

(ii) Risk-free interest rate was used by reference to the United States Treasury Bond Rate at the valuation date.

The fair value of each underlying share of Duomi Music is estimated using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates. In determining the fair value, a weighted average cost of capital of 19.89% and 19.88% were used as at 14 December 2012 and 31 December 2012, respectively.

The effective interest rate of the debt portion of preferred shares is 17.80% per annum.

31. SHARE CAPITAL

Shares

	2012 RMB'000	2011 RMB'000
Authorised:		
3,000,000,000 (2011: 3,000,000,000) ordinary shares of HK$0.01 each	**26,513**	26,513
Issued and fully paid:		
476,282,376 (2011: 475,976,496) ordinary shares of HK$0.01 each	**4,203**	4,201

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 2011	463,402,530	4,635	207,890	4,095	183,661	187,756
Exercise of share options	810,960	8	1,568	7	1,298	1,305
Issue of new shares	11,763,006	118	–	99	–	99
As at 31 December 2011 and 1 January 2012	475,976,496	4,761	209,458	4,201	184,959	189,160
Exercise of share options	305,880	4	583	2	475	477
As at 31 December 2012	476,282,376	4,765	210,041	4,203	185,434	189,637

During the year, a total of 305,880 share options under the Pre-IPO share option scheme were exercised at exercise prices ranging from HK$0.52 to HK$0.74 per share, for a total cash consideration, before expenses, of HK$197,000 (equivalent to RMB160,000).

During the prior year, a total of 756,960 share options under the 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 54,000 share options under the share option scheme were exercised at exercise prices ranging from HK$1.16 to HK$3.20 per share for a total cash consideration, before expenses, of HK$474,000 (equivalent to RMB404,000).

32. 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 options under the Pre-IPO share option scheme have been granted since the listing of the shares of the Company on 26 May 2008 and no share options under the Pre-IPO share option scheme are 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:

	2012		2011	
	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	**0.65**	**340**	0.58	1,140
Forfeited during the year	**0.74**	**(34)**	0.74	(43)
Exercised during the year	**0.64**	**(306)**	0.54	(757)
At 31 December	**–**	**–**	0.65	340

The weighted average share price at the date of exercise for share options exercised during the year was HK$0.97 per share (2011: HK$2.67).

32. SHARE OPTION SCHEMES (continued)

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

No share options were outstanding as at 31 December 2012.

The exercise prices and exercise periods of the share options outstanding as at 31 December 2011 are as follows:

2011

Number of options	**Exercise price***	**Exercise period**
'000	HK$ per share	
135	0.52	1-2-2009 to 21-5-2012
205	0.74	1-2-2009 to 21-5-2012
340		

* The exercise price of the share options is subject to adjustment in the 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). During the year, no share option expenses (2011: RMB38,000) were recognised in respect of share options granted in the prior years.

(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.

32. SHARE OPTION SCHEMES (continued)

(b) Share option scheme (continued)

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

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

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

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

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

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

	2012		2011	
	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	**2.15**	**11,833**	2.86	12,740
Granted during the year	**–**	**–**	2.28	11,000
Cancelled during the year	**–**	**–**	3.18	(5,762)
Forfeiture during the year	**2.14**	**(2,521)**	2.91	(6,091)
Exercised during the year	**–**	**–**	1.16	(54)
At 31 December	**2.15**	**9,312**	2.15	11,833

32. SHARE OPTION SCHEMES (continued)

(b) Share option scheme (continued)

In the prior year, the weighted average share price of the share options exercised during the prior year at the date of exercise was HK$2.5.

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.

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

2012

Number of options '000	**Exercise price*** HK$ per share	**Exercise period**
108	3.200	24-12-2009 to 23-12-2014
915	3.168	5-10-2009 to 4-10-2014
2,203	1.184	15-10-2010 to 14-10-2018
5,686	2.410	25-3-2011 to 24-3-2016
400	1.200	18-8-2011 to 17-8-2016
9,312		

2011

Number of options '000	**Exercise price*** HK$ per share	**Exercise period**
108	3.200	24-12-2009 to 23-12-2014
1,280	3.168	5-10-2009 to 4-10-2014
2,203	1.184	15-10-2010 to 14-10-2018
7,042	2.410	25-3-2011 to 24-3-2016
1,200	1.200	18-8-2011 to 17-8-2016
11,833		

* The exercise price of the share options is subject to adjustment in the 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 2011 was RMB9,548,000 (RMB0.87 each), of which the Group recognised a share option expense of RMB1,569,000 (2011: RMB3,686,000) during the year ended 31 December 2012 in respect of the share options granted in the prior years.

32. SHARE OPTION SCHEMES (continued)

(b) Share option scheme (continued)

In 2011, the fair value of equity-settled share options granted 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:

	March 2011	August 2011
Dividend yield (%)	–	–
Expected volatility (%)	74.22	72.31
Risk-free interest rate (%)	1.797	0.737
Expected life of options (year)	0.49-4.23	0.98-4.45
Weighted average share price (HK$ per share)	2.41	1.2

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.

(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.

32. SHARE OPTION SCHEMES (continued)

(c) Join Reach share option scheme (continued)

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:

	2012		2011	
	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	–	–	0.90	2,520
Exercised during the year	–	–	0.90	(2,520)
At 31 December	–	–	–	–

The fair value of the share options granted to the employees of the Company and its subsidiaries in 2008 was RMB3,816,000 (RMB0.72 each). In 2012, no share option expense has been recognised in respect of share options granted in the prior years (2011: RMB74,000).

At the end of the reporting period, the Company had approximately 9,312,000 share options outstanding under 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 9,312,000 additional ordinary shares of the Company and additional share capital of HK$93,120 and share premium of HK$19,943,000 (before issue expenses).

Subsequent to the end of the reporting period, an aggregate of 1,055,000 share options under the share option scheme were lapsed.

At the date of approval of these financial statements, the Company had 11,157,000 share options outstanding under the share option scheme, which represented approximately 0.78% of the Company's shares in issue as at that date.

33. 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 considerations (including but not limited to, the lockup 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 the Award Shares under the loan agreement; (ii) instruct its broker to purchase existing shares in 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 prior year, a total 11,763,000 shares have been awarded to an executive director of the Company and certain employees of the Group for no consideration but subject to conditions including performance benchmark and lock-up periods. A total of 2,683,000 (2011: 1,740,000) shares at a cost of RMB3,171,000 (2011: RMB3,044,000) were vested during the year.

Movements in the number of the Award Shares and their related average fair value are as follows:

	2012		2011	
	Average fair value HK$ per share	**Number of shares '000**	Average fair value HK$ per share	Number of shares '000
At 1 January		**10,023**	–	–
Awarded		**–**	1.44	11,763
Vested	**1.45**	**(2,683)**	2.11	(1,740)
At 31 December		**7,340**		10,023

33. SHARE AWARD SCHEME (continued)

Movements in the number of shares held under the share award scheme are as follows:

	2012 Number of shares held '000	2011 Number of shares held '000
At 1 January	**10,769**	106
Purchased during the year	**–**	1,754
Issued during the year	**–**	11,763
Released during the year	**(2,683)**	(2,854)
At 31 December	**8,086**	10,769

The fair value of the Award Shares granted in 2011 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:

	January 2011	March 2011	August 2011
Dividend yield (%)	1.81	–	–
Historical volatility (%)	54.81 – 58.70	53.83 – 74.22	51.16 – 72.31
Risk-free interest rate (%)	0.199 – 0.371	0.24 – 1.47	0.07 – 0.52
Weighted average share price (HK$ per share)	2.76	2.23	1.2

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

34. 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 to 45 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 to 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.

34. 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 2011	192,046	(280)	8,969	(1,077)	10,750	4,571	214,979
Total comprehensive loss for the year	–	–	–	(1,192)	–	(4,002)	(5,194)
Issue of shares	–	(99)	–	–	–	–	(99)
Equity-settled share-based payment arrangements	–	–	–	–	8,350	–	8,350
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	(2,217)	2,217	–
Employee share award scheme:							
– shares purchased for share award scheme	–	(2,175)	–	–	–	–	(2,175)
– release of award shares	–	738	–	–	(738)	–	–
Exercise of share options	1,842	–	–	–	(901)	–	941
At 31 December 2011 and 1 January 2012	193,888*	(1,816)	8,969*	(2,269)	15,244	2,786*	216,802
Total comprehensive loss for the year	–	–	–	(897)	–	(1,801)	(2,698)
Equity-settled share-based payment arrangements	–	–	–	–	4,219	–	4,219
Transfer of reserve upon the forfeiture or expiry of share options	–	–	–	–	(2,198)	2,198	–
Employee share award scheme – release of award shares	–	441	–	–	(441)	–	–
Exercise of share options	475	–	–	–	(324)	–	151
At 31 December 2012	194,363*	(1,375)	8,969*	(3,166)	16,500	3,183*	218,474

* These reserve accounts comprise the Company's reserves available for distribution amounting to RMB206,515,000 (2011: RMB205,643,000).

34. RESERVES (continued)

(b) Company (continued)

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.

35. DISPOSAL OF SUBSIDIARIES

(a) On 28 April 2011, the Group disposed of its entire interest in a wholly-owned subsidiary, Beijing Haide Zhongshi Cultural Broadcasting Co., Ltd. ("Haide"), for a consideration of RMB100,000. Haide is engaged in the provision of providing and arranging cultural and art activities. The disposal was made as the Group would concentrate on the further development of music and music related business.

	Note	RMB'000
Net assets disposed of:		
Property, plant and equipment	14	21
Accounts receivable		172
Prepayments, deposits and other receivables		2,017
Cash and bank balances		3,775
Accounts payable		(37)
Other payables and accruals		(6,434)
Total identifiable net assets at fair value		(486)
Gain on disposal of a subsidiary		586
Satisfied by cash		100

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration received	100
Cash and bank balances disposed of	(3,775)
Net outflow of cash and cash equivalents included in cash flows in respect of the disposal of a subsidiary	(3,675)

35. DISPOSAL OF SUBSIDIARIES (continued)

(b) On 28 April 2011, the Group disposed of its entire interest in an 80%-owned subsidiary, Beijing Zhengshangyou Cultural Broadcasting Co., Ltd. ("Zhengshangyou"), for a consideration of RMB4,700,000. Zhengshangyou is engaged in the provision of mobile value-added services. The disposal was made as the Group would concentrate on the further development of music and music related business.

	Notes	RMB'000
Net assets disposed of:		
Property, plant and equipment	14	47
Intangible assets	17	1,995
Accounts receivable		1,696
Prepayments, deposits and other receivables		232
Cash and bank balances		147
Accounts payable		1,080
Tax payable		(273)
Other payables and accruals		(1,573)
Non-controlling interests		(1,054)
		2,297
Goodwill released	16	2,195
Gain on disposal of a subsidiary		208
Satisfied by cash		4,700

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration received	4,700
Cash and bank balances disposed of	(147)
Net inflow of cash and cash equivalents included in cash flows in respect of the disposal of a subsidiary	4,553

36. PLEDGE OF ASSETS

Details of the Group's bank loan which is secured by certain asset of the Group, are included in note 28(a) to the financial statements.

37. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease arrangements with lease terms of one year. 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	
	2012	2011
	RMB'000	RMB'000
Within one year	**2,375**	1,055

38. COMMITMENTS

In addition to the operating lease commitments detailed in note 37 above, the Group had the following capital commitments as at the end of the reporting period:

		Group	
	Note	**2012**	2011
		RMB'000	RMB'000
Authorised, but not contracted for:			
Construction in progress		**120,000**	164,000
Contracted, but not provided for:			
Construction in progress		**60,660**	83,761
Acquisition of an investment	(i)	**–**	16,311
		180,660	264,072

(i) In October 2011, the Group proposed to acquire 8.14% interest in Guangzhou Kugou Computer Technology Company, Guangzhou Silang Information Technology Company Limited and Kugou Holding Limited (collectively the "Kogou group") for a total cash consideration of RMB16,311,000. Kugou group is engaged in the provision of online music business in the PRC.

In current year, the Group entered into a termination agreement for the termination of the proposed acquisition of Kugou group with effect from 19 January 2012.

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

39. RELATED PARTY TRANSACTIONS

(a) In addition to those detailed elsewhere in these financial statements, during the current year, the Group had the following transaction:

	2012 RMB'000	2011 RMB'000
Service fee paid	**1,906**	–

The Company entered into a subcontract agreement with Beijing Caiyun dated 4 November 2011 for software development and the provision of music downloading service. The service fee was determined at rates mutually agreed between the relevant parties.

The above related party transaction also constitutes connected transaction as defined in Chapter 14A of the Listing Rules.

(b) On 28 April 2011, the Group entered into the share transfer agreements with, among others, Shenzhen Duyiweier Technology Co. Limited ("Shenzhen Technology") pursuant to which the Group agreed to sell a 100% equity interest in Haide and an 80% equity interest in Zhengshangyou for considerations of RMB100,000 and RMB4,700,000, respectively. Mr. Liu owned an 80% equity interest in Shenzhen Technology. Details of the disposals are included in note 35 to the financial statements.

(c) In September 2011, the Group advanced an amount of RMB11 million to Beijing Caiyun, which became owned as to 44.74% by Mr. Liu upon the completion of the domestic restructuring of Beijing Caiyun in October 2011, and thus became a related company of the Group. Details of the Group's other receivable with Beijing Caiyun as at 31 December 2011 are disclosed in note 23 to the financial statements.

(d) Compensation of key management personnel of the Group

	2012 RMB'000	2011 RMB'000
Short term employee benefits	**3,289**	2,982
Post-employment benefits	**159**	131
Equity-settled share option expenses	**1,111**	1,013
Equity-settled share award expenses	**91**	165
Total compensation paid to key management personnel	**4,650**	4,291

40. FINANCIAL INSTRUMENTS BY CATEGORY

Other than investments at fair value through profit or loss and conversion option embedded in preferred shares as disclosed in notes 24 and 30, respectively, to the financial statements, all financial assets and liabilities of the Group and the Company as at 31 December 2012 and 2011, were loans and receivables, and financial liabilities stated at amortised cost, respectively.

41. FAIR VALUE AND FAIR VALUE HIERARCHY

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

The Group uses the following hierarchy for determining and disclosing the fair values 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)

The investments at fair value through profit or loss amounting to RMB1,371,000 (2011: RMB1,880,000) are measured at fair value and determined as Level 1 financial instruments.

The conversion option embedded in preferred shares amounting to RMB12,600,000 (2011: Nil) is measured at fair value and determined as Level 3 financial instruments.

During the prior year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

42. 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.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) Liquidity risk

The Group manages liquidity risk by maintaining a sufficient amount of bank deposits and use of a bank loan to ensure that operational requirements are fulfilled.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

As at 31 December 2012

	Group			
	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Total RMB'000
Accounts payable (note 26)	30,262	–	–	30,262
Other payables and accruals (note 27)	79,096	–	–	79,096
Interest-bearing bank borrowing (note 28)	2,313	4,494	75,252	82,059
	111,671	4,494	75,252	191,417

As at 31 December 2011

	Group			
	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Total RMB'000
Accounts payable (note 26)	26,483	–	–	26,483
Other payables and accruals (note 27)	72,439	–	–	72,439
Interest-bearing bank borrowing (note 28)	889	904	13,625	15,418
	99,811	904	13,625	114,340

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Capital management

The primary objectives 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, other payables and accruals and interest-bearing bank borrowing. The amounts of the net cash over debt position at the end of the reporting periods were as follows:

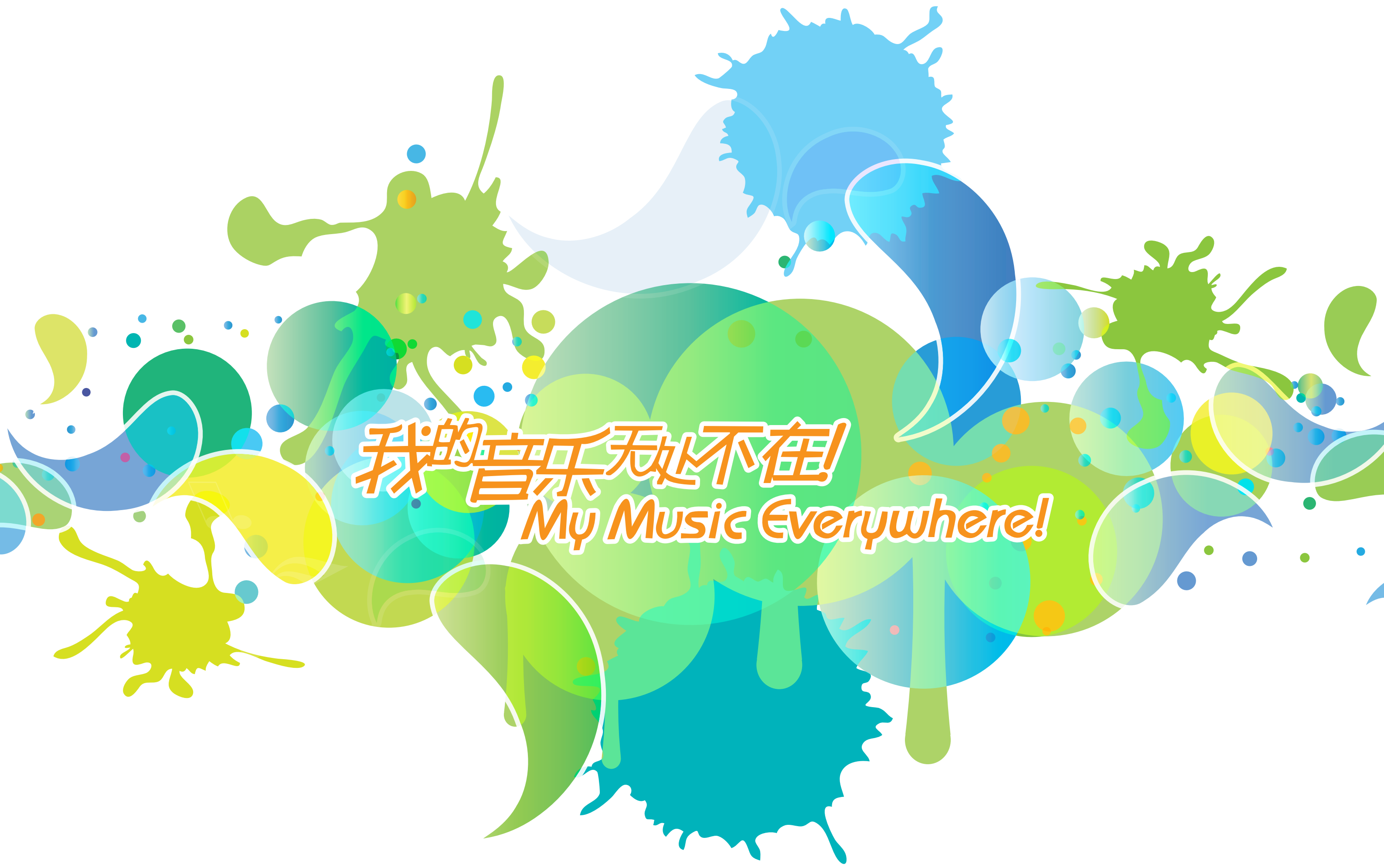
	2012	2011
	RMB'000	RMB'000
Cash and cash equivalents	**374,562**	360,596
Accounts payable	**(30,262)**	(26,483)
Other payables and accruals	**(79,096)**	(72,439)
Interest-bearing bank borrowing	**(69,567)**	(13,000)
Net cash over debt position	**195,637**	248,674

43. EVENT AFTER THE REPORTING PERIOD

The Company proposed to raise approximately HK$342,920,000 (before expenses) by way of rights issue of 952,564,752 rights shares at a subscription price of HK$0.36 per rights share on the basis of two rights shares for every existing share held on the record date (i.e. 27 February 2013). Further details of the Company's rights issue are set out in the Company's circular dated 30 January 2013 and prospectus dated 28 February 2013. The rights issue became unconditional on 19 February 2013.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2013.



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