



**A8 DIGITAL MUSIC HOLDINGS LIMITED**

**A8電媒音樂控股有限公司**

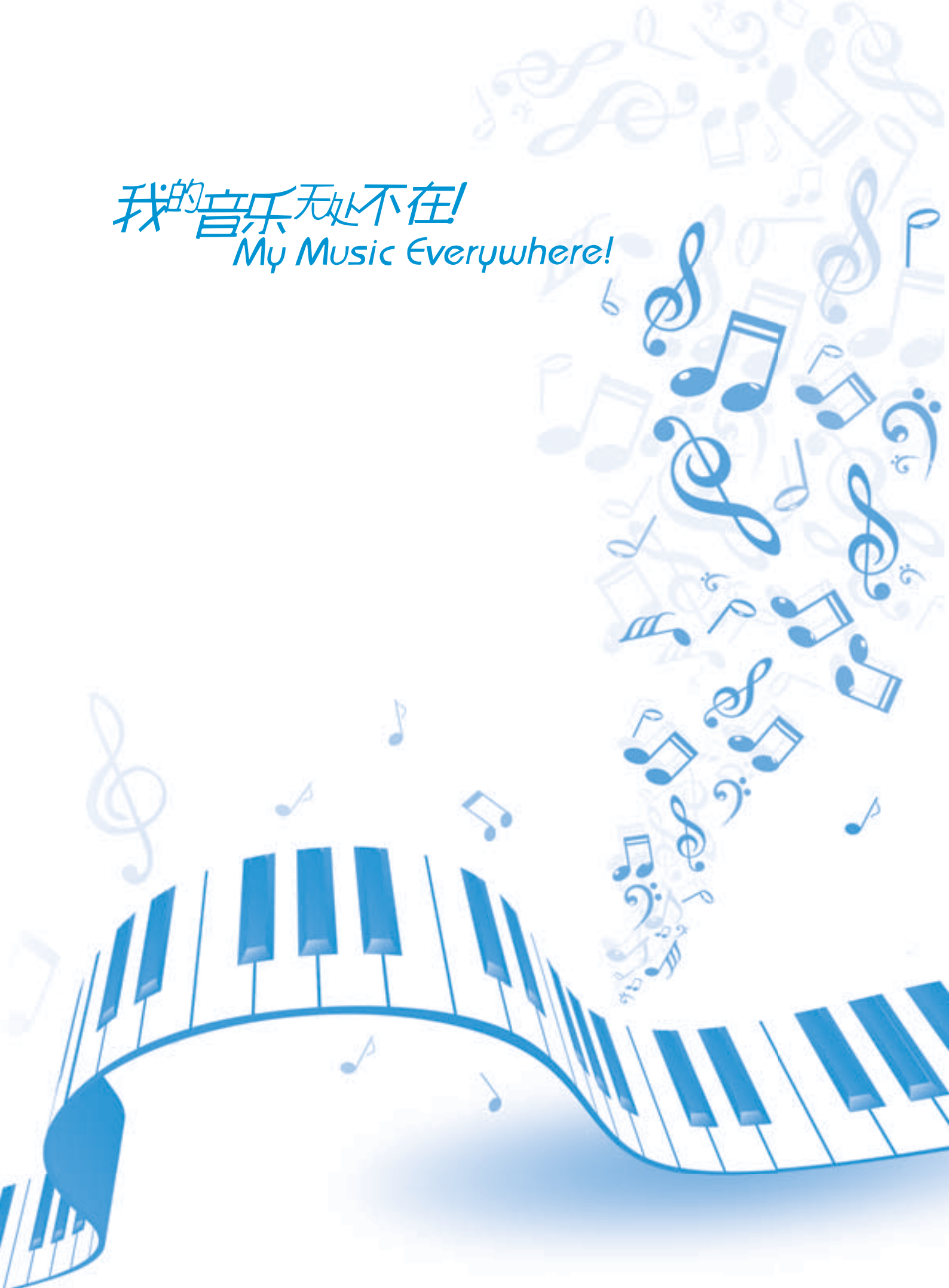
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 00800

*INTERIM REPORT* **2013**



我的音乐无处不在!  
My Music Everywhere!





## CONTENTS

Corporate Information	2
Condensed Consolidated Income Statement	3
Condensed Consolidated Statement of Comprehensive Income	4
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Statement of Cash Flows	8
Notes to Condensed Consolidated Interim Financial Statements	9
Management Discussion and Analysis	18
Disclosure of Interests	25
Purchase, Sale or Redemption of the Company's Listed Securities	28
Compliance with the Code on Corporate Governance Practices	28
Compliance with the Model Code	28
Audit Committee	28

## Corporate Information

### EXECUTIVE DIRECTORS

Mr. Liu Xiaosong

Mr. Lu Bin

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Yiu Kwong

Ms. Wu Shihong

Mr. Songke

### AUDIT COMMITTEE

Mr. Chan Yiu Kwong (*Chairman*)

Ms. Wu Shihong

Mr. Songke

### NOMINATION COMMITTEE

Mr. Liu Xiaosong (*Chairman*)

Ms. Wu Shihong

Mr. Songke

### REMUNERATION COMMITTEE

Ms. Wu Shihong (*Chairman*)

Mr. Liu Xiaosong

Mr. Songke

### AUTHORISED REPRESENTATIVES

Mr. Liu Xiaosong

Ms. Gao Keying

### COMPANY SECRETARIES

Ms. Ho Yip, Betty

Ms. Gao Keying

### AUDITORS

Ernst & Young

### PRINCIPAL BANKERS

China Merchants Bank

Standard Chartered Bank (Hong Kong) Limited

Credit Suisse,

Hong Kong Branch

### REGISTERED OFFICE

Cricket Square

Hutchins

Drive P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

### HEAD OFFICE

5/F, Fucheng Hi-tech Building

South-1 Avenue

Southern District of Hi-tech Park

Nanshan District

Shenzhen

Guangdong Province

The PRC

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 06-12, 33/F.,

Shui On Centre,

6-8 Harbour Road,

Wanchai,

Hong Kong

### BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor

Services Limited

46th Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

### WEBSITE

[www.a8.com](http://www.a8.com)

### STOCK CODE

00800

# Condensed Consolidated Income Statement

For the six months ended 30 June 2013

The Board of Directors (the “Board”) of A8 Digital Music Holdings Limited (the “Company”) hereby present the unaudited condensed consolidated interim financial statements (“Interim Accounts”) of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2013 together with the unaudited comparative figures for the corresponding period in 2012 as follows:

		<b>For the six months ended 30 June</b>	
		<b>2013</b>	2012
		<b>(Unaudited)</b>	(Unaudited)
		<b>RMB'000</b>	RMB'000
	Notes		
Revenue		<b>95,724</b>	184,079
Business tax		<b>(1,349)</b>	(3,741)
Net revenue	3	<b>94,375</b>	180,338
Cost of services provided		<b>(62,415)</b>	(118,688)
Gross profit		<b>31,960</b>	61,650
Other income and gains, net	3	<b>8,569</b>	4,480
Selling and marketing expenses		<b>(27,792)</b>	(46,818)
Administrative expenses		<b>(26,665)</b>	(24,088)
Other expenses, net		<b>(13,691)</b>	(843)
Share of losses of associates		<b>(17,566)</b>	(3,199)
Share of loss of a jointly-controlled entity		<b>(132)</b>	-
<b>LOSS BEFORE TAX</b>	4	<b>(45,317)</b>	(8,818)
Income tax expense	5	<b>(586)</b>	(820)
<b>LOSS FOR THE PERIOD</b>		<b>(45,903)</b>	(9,638)
Attributable to:			
Owners of the Company		<b>(45,263)</b>	(9,638)
Non-controlling interests		<b>(640)</b>	-
		<b>(45,903)</b>	(9,638)
<b>LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	7		(Restated)
Basic (RMB per share)		<b>(0.04)</b>	(0.02)
Diluted (RMB per share)		<b>(0.04)</b>	(0.02)

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2013

	<b>For the six months ended 30 June</b>	
	<b>2013 (Unaudited) RMB'000</b>	2012 (Unaudited) RMB'000
Loss for the period	<b>(45,903)</b>	(9,638)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss to be reclassified to profit or loss in subsequent periods:		
Exchange realignment	<b>(4,149)</b>	1,640
Total comprehensive loss for the period	<b>(50,052)</b>	(7,998)
Attributable to:		
Owners of the parent	<b>(49,412)</b>	(7,998)
Non-controlling interests	<b>(640)</b>	–
	<b>(50,052)</b>	(7,998)

# Condensed Consolidated Statement of Financial Position

As at 30 June 2013

	Notes	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	167,346	135,520
Prepaid land lease payments		25,948	26,240
Goodwill		1,515	1,515
Prepayment for acquisition of property, plant and equipment		7,897	8,160
Intangible assets		24,512	29,077
Investment in associates		3,325	3,651
Investment in a jointly-controlled entity		3,295	3,427
Deferred tax assets		1,193	1,193
Conversion option embedded in preferred shares	9	483	12,600
Debt portion of preferred shares	9	11,861	26,890
Total non-current assets		247,375	248,273
<b>CURRENT ASSETS</b>			
Accounts receivable	10	41,781	53,100
Prepayments, deposits and other receivables		23,139	21,275
Investments at fair value through profit or loss		119,616	1,371
Restricted cash balances		2,940	2,940
Time deposits with original maturity of more than three months		202,798	8,318
Cash and cash equivalents		247,158	374,562
Total current assets		637,432	461,566
<b>CURRENT LIABILITIES</b>			
Accounts payable	11	22,423	30,262
Other payables and accruals		55,438	79,096
Interest-bearing bank borrowing		51,686	–
Tax payable		4,525	5,113
Deferred income		4,100	3,533
Total current liabilities		138,172	118,004
<b>NET CURRENT ASSETS</b>		499,260	343,562
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		746,635	591,835
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank borrowing		–	69,567
Deferred tax liabilities		1,251	1,382
Deferred income		10,920	5,620
Total non-current liabilities		12,171	76,569
Net assets		734,464	515,266
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Issued capital	12	11,914	4,203
Reserves		723,084	510,957
		734,998	515,160
<b>Non-controlling interests</b>			
		(534)	106
Total equity		734,464	515,266

# Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2013

	Attributable to owners of the Company													
	Issued capital (Unaudited) RMB'000	Share premium account (Unaudited) RMB'000	Shares held under share award scheme (Unaudited) RMB'000	Merger reserve (Unaudited) RMB'000	Employee surplus contributions (Unaudited) RMB'000	Employee share-based compensation reserve (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Statutory reserve (Unaudited) RMB'000	Reserve funds (Unaudited) RMB'000	Reserve fund (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000	Non-controlling interests Total (Unaudited) RMB'000	Total equity (Unaudited) RMB'000	
At 1 January 2013	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
Loss for the period	-	-	-	-	-	-	-	-	-	-	(45,263)	(45,263)	(640)	(45,903)
Other comprehensive loss for the period:														
Exchange realignment	-	-	-	-	-	-	(4,149)	-	-	-	-	(4,149)	-	(4,149)
Total comprehensive loss for the period	-	-	-	-	-	-	(4,149)	-	-	-	(45,263)	(49,412)	(640)	(50,052)
Rights issue	7,711	269,904	-	-	-	-	-	-	-	-	-	277,615	-	277,615
Equity-settled share-based payment arrangements	-	-	-	-	-	915	-	-	-	-	-	915	-	915
Share issue expenses	-	(4,568)	-	-	-	-	-	-	-	-	-	(4,568)	-	(4,568)
Transfer of reserve upon the forfeiture or expiry of share options	-	-	-	-	-	(1,018)	-	-	-	-	1,018	-	-	-
Employee share award scheme:														
- share purchased for share award scheme	-	-	(4,712)	-	-	-	-	-	-	-	-	(4,712)	-	(4,712)
- release of award shares	-	-	237	-	-	(237)	-	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	-	-	-	-	-	1,320	-	(1,320)	-	-	-
At 30 June 2013	11,914	450,770	(5,850)	29,135	10,522	21,310	(2,139)	10,833	22,963	4,422	181,118	734,998	(534)	734,464



# Condensed Consolidated Statement of Changes In Equity (continued)

For the six months ended 30 June 2012

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

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	<b>(19,973)</b>	(25,811)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(356,257)</b>	(118,243)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>252,975</b>	26,640
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(123,255)</b>	(117,414)
Cash and cash equivalents at beginning of period	<b>374,562</b>	360,596
Effect of foreign exchange rate changes, net	<b>(4,149)</b>	1,640
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>247,158</b>	244,822
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>117,158</b>	228,872
Time deposits with original maturity of less than three months when acquired	<b>130,000</b>	15,950
	<b>247,158</b>	244,822

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2012, except in relation to the following new and revised International Financial Reporting Standards, (“IFRSs”, which also include IASs and Interpretations) that affect the Group and are adopted for the first time for the current period’s financial statements:

IFRS 7 Amendments	<i>Amendments to IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 10, IFRS 11 and IFRS 12 Amendments	<i>Amendments to IFRS 10, IFRS 11 and IFRS 12 – Transition Guidance</i>
IFRS 10, IFRS 12 and IAS 27 (revised) Amendments	<i>Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 1 Amendments	<i>Amendments to IAS 1 Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
IAS 27 (Revised)	<i>Separate Financial Statements</i>
IAS 28 (Revised)	<i>Investments in Associates and Joint Ventures</i>
Annual Improvements 2009-2011 Cycle	<i>Amendments to a number of IFRSs issued in May 2012</i>

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

## 2. OPERATING SEGMENT INFORMATION

The directors consider that the Group’s activities constitute one operating segment as the Group is principally engaged in providing digital music and mobile internet related services. Management makes decisions about resource allocation and performance assessment on a group basis.

Over 90% of the Group’s revenue from external customers is derived from the Group’s operations in the People’s Republic of China (the “PRC”), and no non-current assets of the Group are located outside the PRC.

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

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

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

	<b>For the six months ended 30 June</b>	
	<b>2013 (Unaudited) RMB'000</b>	2012 (Unaudited) RMB'000
<b>Revenue</b>		
Ringtone services	<b>15,089</b>	15,382
Ringback tone services	<b>52,079</b>	108,070
Other music related services	<b>153</b>	2,169
Non-music related services	<b>28,403</b>	58,458
	<b>95,724</b>	184,079
Less: Business tax	<b>(1,349)</b>	(3,741)
Net revenue	<b>94,375</b>	180,338
<b>Other income and gains, net</b>		
Interest income	<b>6,358</b>	4,321
Fair value gain on investments at fair value through profit and loss	–	70
Imputed interest income	<b>2,211</b>	–
Foreign exchange differences, net	–	71
Others	–	18
	<b>8,569</b>	4,480

## 4. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
Depreciation	717	745
Amortisation of intangible assets	4,706	4,189
Amortisation of prepaid land lease payments	292	293
Foreign exchange differences, net	1,630	(71)
Fair value loss on investments at fair value through profit or loss	2,899	–
Fair value loss on conversion option embedded in preferred shares	12,117	–
Write-back of impairment of accounts receivable	(1,545)	–

## 5. INCOME TAX EXPENSE

An analysis of income tax charges for the six months ended 30 June 2013 and 2012 is shown as follows:

	For the six months ended 30 June	
	2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
Group		
Current – PRC		
Charge for the period	386	174
Underprovision in the prior year	69	483
Deferred	131	163
Total tax charge for the period	586	820

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the six months ended 30 June 2013 and 2012, respectively.

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

## 6. INTERIM DIVIDEND

The Board does not recommend payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

## 7. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount for the six months ended 30 June 2013 is based on the loss for the period attributable to equity holders of the Company of RMB45,263,000 (six months ended 30 June 2012: RMB9,638,000) and the weighted average number of ordinary shares in issue less shares held under share award scheme during the six months ended 30 June 2013 of 1,046,666,499 (2012: 611,668,889, as restated).

The basic loss per share amount for the six month ended 30 June 2012 has been retrospectively adjusted for the rights issue taken place on 22 March 2013.

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2013 and 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 amounts presented.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB32,768,000 (2012: RMB12,841,000), which mainly reflected the construction cost related to the project of A8 building.

## 9. DEBT PORTION OF PREFERRED SHARES AND CONVERSION OPTION EMBEDDED IN PREFERRED SHARES

On 14 December 2012 (the "Completion Date"), Phoenix Success Limited ("Phoenix Success"), a wholly-owned subsidiary of the Company, subscribed for 13,853,868 convertible redeemable preferred shares (the "preferred shares") at US\$0.43 each for cash issued by Duomi Music Holding Limited ("Duomi Music"), an associate of the Group. 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 forth 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).

## 9. DEBT PORTION OF PREFERRED SHARES AND CONVERSION OPTION EMBEDDED IN PREFERRED SHARES (CONTINUED)

The Group classified the debt portion of the preferred shares in Duomi Music as loans and receivables and the conversion option 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 Option Pricing Model in the valuation of the conversion option embedded in preferred shares are as follows:

	<b>30 June 2013</b>	31 December 2012	14 December 2012
Expected volatility (i)	<b>51.38%</b>	53.45%	55.62%
Dividend yield	–	–	–
Option life (Year(s))	<b>3.46</b>	3.96	4.0
Risk-free interest rate (ii)	<b>0.831%</b>	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; and
- (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 ("WACC") of 19.89%, 19.88% and 20.21% were used as at 14 December 2012, 31 December 2012 and 30 June 2013, respectively.

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

## 10. ACCOUNTS RECEIVABLE

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

	<b>30 June 2013 (Unaudited) RMB'000</b>	31 December 2012 (Audited) RMB'000
<b>Neither past due nor impaired:</b>		
Within 1 month	<b>9,228</b>	14,053
Over 1 month but less than 2 months	<b>10,259</b>	8,315
Over 2 months but less than 3 months	<b>6,412</b>	9,112
Over 3 months but less than 4 months	<b>5,105</b>	5,171
<b>Past due but not impaired:</b>		
4 to 6 months	<b>4,648</b>	9,328
Over 6 months	<b>6,129</b>	7,121
	<b>41,781</b>	53,100

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

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

	<b>30 June 2013 (Unaudited) RMB'000</b>	31 December 2012 (Audited) RMB'000
At the beginning of period/year	<b>3,583</b>	2,399
Impairment losses recognised	–	1,184
Write-back of impairment	<b>(1,545)</b>	–
At the end of period/year	<b>2,038</b>	3,583

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



## 11. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the end of the reporting period, based on the invoice date, is as follows:

	<b>30 June 2013 (Unaudited) RMB'000</b>	31 December 2012 (Audited) RMB'000
Within 1 month	<b>2,436</b>	4,877
1 to 3 months	<b>5,063</b>	9,170
4 to 6 months	<b>1,469</b>	4,620
Over 6 months	<b>13,455</b>	11,595
	<b>22,423</b>	30,262

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

## 12. SHARE CAPITAL

### Shares

	<b>30 June 2013 (Unaudited) RMB'000</b>	31 December 2012 (Audited) RMB'000
<b>Authorised:</b> 3,000,000,000 (2012: 3,000,000,000) ordinary shares of HK\$0.01 each	<b>26,513</b>	26,513
<b>Issued and fully paid:</b> 1,428,847,128 (2012: 476,282,376) ordinary shares of HK\$0.01 each	<b>11,914</b>	4,203

# Notes to Condensed Consolidated Interim Financial Statements

## 12. SHARE CAPITAL (CONTINUED)

A summary of the transactions during the six months ended 30 June 2013 in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares (Unaudited)	Nominal value of ordinary shares (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Equivalent nominal value of ordinary shares (Unaudited) RMB'000	Equivalent share premium (Unaudited) RMB'000	Total (Unaudited) RMB'000
At 1 January 2013	476,282,376	4,765	210,041	4,203	185,434	189,637
Rights issue	952,564,752	9,525	333,398	7,711	269,904	277,615
Share issue expenses	-	-	(5,734)	-	(4,568)	(4,568)
<b>At 30 June 2013</b>	<b>1,428,847,128</b>	<b>14,290</b>	<b>537,705</b>	<b>11,914</b>	<b>450,770</b>	<b>462,684</b>

During the period, a rights issue of two rights shares for every existing share held by members on the register of members on 27 February 2013 was made, at an issue price of HK\$0.36 per rights share, resulting in the issue of 952,564,752 shares of HK\$0.01 each for a total cash consideration, before expenses, of HK\$342,923,000.

## 13. COMMITMENTS

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

	<b>30 June 2013 (Unaudited) RMB'000</b>	31 December 2012 (Audited) RMB'000
Authorised, but not contracted for: Construction in progress	<b>109,800</b>	120,000
Contracted, but not provided for: Construction in progress	<b>33,660</b>	60,660
	<b>143,460</b>	180,660

## 14. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts of the Group's financial instruments are 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 RMB119,616,000 (2012: RMB1,371,000) are measured at fair value and determined as Level 1 financial instruments.

The conversion option embedded in preferred shares amounting to RMB483,000 (2012: RMB12,600,000) is measured at fair value and determined as Level 3 financial instruments.

During the current period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2012: Nil).

## 15. APPROVAL OF THE UNAUDITED INTERIM ACCOUNTS

The unaudited Interim Accounts were approved by the Board on 21 August 2013.

## BUSINESS REVIEW

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

For the six months ended 30 June 2013, the revenue of the Group amounted to approximately RMB95.7 million, representing a decline of approximately 48% as compared with the same period in 2012 (2012: approximately RMB184.1 million).

The decline in revenue was mainly due to the disposal of some traditional wireless value-added business that is to be replaced in the future as we anticipated. The Group has shifted its strategic focus to the rapid layout in the field of digital music and Mobile Internet.

For the six months ended 30 June 2013, the loss attributable to equity holders of the Company amounted to approximately RMB45.3 million, among which, share of losses of associates, fair value loss on conversion option embedded in the preferred shares amounted to approximately RMB17.6 million and RMB12.1 million respectively, compared to the loss attributable to equity holders of the Company of approximately RMB9.6 million for the last corresponding period.

### Cost of services provided

For the six months ended 30 June 2013, the cost of services provided of the Group amounted to approximately RMB62.4 million, representing a decrease of approximately 47% as compared with the same period in 2012 (2012: approximately RMB118.7 million). The cost of services provided mainly comprises revenue sharing with mobile operators and business alliances, and other costs such as music copyrights and direct labor costs.

Revenue share with mobile operators ranged from 50% to 70% of the total revenue received from mobile users and it averaged at approximately 41% of the total revenue for the six months ended 30 June 2013 (2012: approximately 39%). The increase was mainly due to the change of product mix plus the deterioration of revenue share ratio with mobile operators.

Revenue share with business alliances averaged at approximately 16% of the total revenue for the six months ended 30 June 2013 (2012: approximately 19%), representing a decrease of 3% as compared with the last corresponding period.

### Gross profit

For the six months ended 30 June 2013, the gross profit of the Group amounted to approximately RMB32.0 million, representing a decrease of approximately 48% as compared with the same period in 2012 (2012: approximately RMB61.7 million).

The gross margin ratio of the Group was 33%, remaining the same level as the last corresponding period.

## Other income and gains, net

For the six months ended 30 June 2013, the other income and gains of the Group were approximately RMB8.6 million, sharply increased by 91% as compared with the last corresponding period (2012: net gain of approximately RMB4.5 million). It mainly comprised interest income, the recognized imputed interest income related to debt portion of preferred shares amounted to approximately RMB6.4 million and RMB2.2 million respectively while it was mainly comprised of interest income of approximately RMB4.3 million in same period of 2012.

## Selling and marketing expenses

For the six months ended 30 June 2013, the selling and marketing expenses of the Group amounted to approximately RMB27.8 million, decreased by 41% as compared with the same period in 2012, representing approximately 29% of total revenue (2012: approximately RMB46.8 million, representing approximately 25% of total revenue). Among the selling and marketing expenses, over 50% were the promotion and marketing cost related to the music and music related services.

## Administrative expenses

For the six months ended 30 June 2013, the administrative expenses of the Group amounted to approximately RMB26.7 million, increased by approximately 11% as compared with the same period in 2012 (2012: approximately RMB24.1 million).

The increase was mainly driven by the increase of professional fees, rental expenses and other administrative expenses totally amounted to approximately RMB3.9 million and the foreign exchange losses resulting from foreign currency translation and exchange rate movement during the period amounted to approximately RMB1.6 million, which were partly offset by the decrease of share option expenses and staff cost amounted to RMB2.1 million and RMB0.9 million respectively.

## Other expenses, net

For the six months ended 30 June 2013, other expenses, net of the Group amounted to approximately RMB13.7 million. This primarily reflected the fair value loss on conversion option embedded in the preferred shares, the fair value loss on investment at fair value through profit or loss amounted to approximately RMB12.1 million and RMB2.9 million respectively, which offset by the write-back of impairment of accounts receivable of approximately RMB1.5 million, compared to approximately RMB0.8 million which mainly comprised of bad-debt provision for the last corresponding period.

### Share of losses of associates

For the six months ended 30 June 2013, the Group shared losses of associates of Duomi Music and Ningmenghai amounted to approximately RMB17.2 million and RMB0.4 million respectively, compared to the shared losses of associates of Duomi Music and Ningmenghai amounted to approximately RMB2.8 million and RMB0.4 million respectively in the last corresponding period.

### Tax

For the six months ended 30 June 2013, income tax of the Group amounted to approximately RMB0.6 million, representing a decrease of approximately 25% as compared with the same period in 2012 (2012: approximately RMB0.8 million).

The effective tax rate of the Group was negative of 1.3% in the six months ended 30 June 2013 (2012: approximately negative of 9.3%). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 12.5%, 15%, 25% in the respective operating companies of the Group in 2013, the same as last corresponding period. The tax expense for the period was mainly the income tax final settlement differences for 2012 and the tax charges contributed by certain profitable subsidiaries of the Group.

### Current assets and current liabilities

As at 30 June 2013, the total current assets of the Group amounted to approximately RMB637.4 million (2012: approximately RMB461.6 million). Accounts receivable amounted to approximately RMB41.8 million (2012: approximately RMB53.1 million), and the turnover days of accounts receivable is 89 days (2012: 52 days).

As at 30 June 2013, the total current liabilities of the Group amounted to approximately RMB138.2 million (2012: approximately RMB118.0 million). The increase was mainly due to the increase of interest-bearing borrowing related to the fund investment amounted to approximately RMB51.7 million, which offset by the decrease of accounts payable amounted to approximately RMB7.8 million and other payables and accruals amounted to approximately RMB23.7 million, among which, approximately RMB9.0 million was related to cost accrual of project of A8 building.

## Liquidity and financial resources

As at 30 June 2013, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, time deposits with original maturity of more than three months and investments at fair value through profit or loss amounted to approximately RMB572.5 million (2012: approximately RMB387.2 million). Approximately RMB395.8 million or approximately 69% of them were denominated in RMB.

As of 30 June 2013, the Group had repaid all the outstanding borrowings which were solely used for the construction of A8 building. The new borrowings presented in the financial statement are the leveraged bank borrowings related to our fund investment as a whole. The gearing ratio which is measured by the net borrowings over the total assets was 5.8%.

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

Due to exchange rate movement during the period, the Group had made certain amount of financial instrument for hedging against both the interest and exchange rate risk as at 30 June 2013.

## Human resources

As at 30 June 2013, the Group had 233 employees (as at 30 June 2012: 256 employees). Total employee costs for the six months ended 30 June 2013, including directors' emoluments, amounted to approximately RMB21.9 million (2012: approximately RMB21.7 million).

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

## Interim dividend

The Board does not recommend the payment of an interim dividend for 2013.

## BUSINESS REVIEW AND OUTLOOK

### Business Review for the first half of 2013

The mobile Internet industry in China kept continuous growth in the first half of 2013. Based on the data published in July 2013 by iResearch, the market size reached RMB44.14 billion in the first half of 2013, represented a 71.4% growth as compared to the corresponding period of 2012. After the rapid growth in the past two years, the mobile Internet enters a critical year in the aspect of business model, industry pattern, etc. Meanwhile, the competition in the music market also became drastic and the giants in internet industry speed up their layouts in this field. We believed in the bright future of commercialization of mobile Internet music, but the revenue from mobile Internet music was currently not proportional to its fast-growing data traffic, and the industry is exploring how to turn it into profit. At the current stage, the benefit from mobile Internet music is still to be proved in the future and the business model is still under investment period.

The Group is currently undergoing a crucial period of its strategic transformation. Since the end of 2012, the Group disposed of certain traditional wireless value-added business comprising of “unidentifiable users’ subscription” which hardly create the value for users or satisfy user experience and is to be replaced in the future as we anticipated. Meanwhile, the Group has shifted its strategic focus to the rapid layout in the field of digital music and mobile Internet. The Group strives to build a music chain based on user value and actively commenced cooperation and operation with mobile Internet applications (APP) based on its accumulated advantages in mobile carriers collaboration.

### *The music industry chain*

In the first half of 2013, the Group continued to strengthen the music business from contents, channels and products, and speeded up its layout in the music industry.

Regarding music contents, the Group continued to make efforts in UGC music and accumulation of copyrights. And in order to provide more sophisticated services for composers, the Group embarked on a major update of A8.com to forge and refurbish the website as a digital music sourcing and marketing platform. At the same time the Group co-organized the “Eighth Original China Internet Music Contest” with the local government, as well as collecting user-generated music through the cooperation with Coca-cola, Zhejiang Satellite TV and other partners. Furthermore, the Group obtained the “Internet Publishing Licence” (“互聯網出版許可證”), which was the first license in the digital music industry in China, which has positive effects to business development of the Group.

Regarding music channels, in the first half of 2013, the Group’s revenue from music and music related business amounted to approximately RMB67.32 million, representing a decrease of 46% as compared to the same period last year (2012: approximately RMB126 million). The Group’s revenues from China Telecom and China Mobile declined in various degrees. In line with changes in the wireless music industry under the mobile internet trend, the Group initiated the application products specifically for the wireless music market, and had made some progress.



Regarding music products, the Group provided music services to users through the research and development in the application-Jing.fm, the home entertainment streaming devices and the investment in Duomi Music. Based upon these deployments, the Group has been exploring the renewed business model.

- The application-Jing.fm allowed users to find their favorite music quickly and simply through “saying the character of music” by natural language description. The application has released IOS version and Android version in the first half of the year and has been highly recognized by users with over one million new activated users before large-scale promotion.
- The Group made progress in research and development of home entertainment streaming devices. In the first half of 2013, the Group’s wireless internet-based music box officially passed the China Compulsory Certification (the “CCC”).
- Duomi Music demonstrated a strong growth in user base and kept fast growth in the first half of 2013. According to the data for the first quarter of 2013 published by iResearch, 57.2% mobile music users in China downloaded and enjoyed music through Duomi Music, which remained a leading position in the industry. In the first half of 2013, Duomi Music provided music social network and became strategic partners of famous companies such as Sony Mobile and BesTV for their music business. In exploring its business model, Duomi Music rolled out a trial run on charging model through the cooperation with China Unicom on traffic monthly subscription. As for the imbalance between revenue stream and the rapid growth of data traffic, Duomi Music will further explore the effective profit model.

### ***Mobile Internet***

Regarding the mobile Internet business, the Group has been gaining operating experiences and channel resources in digital contents through cooperation with mobile carriers and end manufacturers. Meanwhile, the Group integrated its channel expertise accumulated for years and commenced cooperation and operation with mobile Internet applications.

- The Group strengthened its strategic cooperation with mobile carriers in aspects of mobile Internet products and channels, and accumulated operational experiences in various digital products of mobile Internet, through providing operational support services to digital content channels with China Mobile MM (Mobile Market) base. In the first half of 2013, the Group successfully renewed contracts with China Mobile.
- The Group combined with its channel advantages accumulated for years, integrated its billing resources of traditional operators and commenced cooperation with mobile Internet applications by providing promotion and operation services to them. In the first half of 2013, in light of the rapid growth of the mobile game market, the Group applied its past operational experiences and billing resources to commence associated operation on mobile games. The Group provided operational services to mobile games through its brand “指遊方寸” and subsequently operated a number of well-known mobile games. This business model could maximize the Group’s advantages in the field of mobile carriers and help the Group to gain the marketing resources and billing resources through cooperation with mobile carriers.

# Management Discussion and Analysis

## **Business Outlook for the second half of 2013**

Looking forward to the second half of 2013, we are optimistic towards the commercialization of mobile Internet music and also believe that the operation of mobile Internet application (APP) will have great potential. The Group will focus on its strategic layout in digital music and mobile Internet, and will strengthen business operation from the following aspects:

### ***The music industry chain***

Regarding music contents, the Group will strengthen the resourcing, publishing and distributing businesses of digital music contents, continue to update A8.com website, through which to take full advantage of internet to help composers to understand market feedback more directly.

Regarding music channels, in the traditional wireless music field such as ringtone and ringback tone businesses, the Group will extend cooperation with mobile carriers. Leveraging on its accumulation of contents, channel promotion and products differentiation in carriers market, the Group will continue its efforts in the wireless music market. And in the mobile internet music field, the Group will continue to accumulate users and keep exploring the effective profit model through various mobile internet applications such as Duomi Music.

Regarding music products, the Group will continue to offer music-related services to users and to explore the healthy business model. Among these, Jing.fm will continue to update its end-user application version by enhancing user experience, which we hope to expand user base in the second half of the year. For home entertainment streaming devices, the Group will continue its research and development and be committed to developing market in the second half of the year. Duomi Music will focus on core user groups and enhance their loyalty and activeness through improvements through product, operation and promotion. Additionally, it will continue to explore new business models.

### ***Mobile Internet***

Regarding the mobile Internet business, the Group will continue the promotion and operation of digital contents and mobile applications through mobile carriers, extending the operational cooperation in MM project with China Mobile to overall operational supporting services, with a goal of a new collaboration model. At the same time, the Group will actively cooperate with more mobile Internet applications, offering them with billing solutions, operation services and promotion services. The Group plans to develop an operation platform for mobile games in the second half of this year, in which is expected that more games would be released and promoted.

A8 Music has gradually built up its competitive advantage in the transforming process. The Group will focus on providing value to the user, and foster its rapid and sustainable development in the future. The Board will continually work with all staffs for the sustainable development of the Group.

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

As at 30 June 2013, the directors and chief executives of the Company had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 of the Listing Rules and the Code of Conduct for Securities Transactions by Directors of the Company ("**Own Code**"):

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

Name of Director	Capacity	Long positions in shares and underlying shares			Approximate percentage of interest in the Company's issued share capital <sup>(1)</sup>
		Ordinary shares	Underlying shares	Total	
Mr. Liu Xiaosong ("Mr. Liu")	Founder of a trust <sup>(2)</sup> Beneficial owner	508,746,810 5,766,000	Nil 597,310 <sup>(3)</sup>	515,110,120	36.05%
Mr. Lu Bin	Beneficial owner	Nil	3,068,910 <sup>(3)</sup>	3,068,910	0.21%

Notes:

- The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2013 (i.e. 1,428,847,128 Shares).
- Mr. Liu is the founder of a family trust which is deemed under SFO to be interested in all the shares held by Ever Novel Holdings Limited ("**Ever Novel**") and Prime Century Technology Limited ("**Prime Century**") in the Company. As at 30 June 2013, Prime Century directly held 367,115,715 shares and Ever Novel directly held 141,631,095 shares in the Company.
- Details of share options held by the Directors are shown in the section headed "**Share Option Schemes**".

## Disclosure of Interests

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

Name of associated corporation	Name of Director	Nature of Interest	Registered capital/No. of shares held	Approximate percentage of interest
Huadong Feitian <sup>(1)</sup>	Mr. Liu	Beneficial owner	RMB21,510,000 <sup>(3)</sup>	75%
Duomi Music <sup>(2)</sup>	Mr. Liu	Interest of controlled corporation	35,435,640 <sup>(4)</sup>	30.13%

Notes:

1. Huadong Feitian is a limited liability company incorporated in China which 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 30 June 2013, the Company was interested in approximately 42.73% (assuming no option under the existing ESOP has been exercised) 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 30.13% (assuming no option under the existing ESOP has been exercised) 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 above, as at 30 June 2013, none of the directors or chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which 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.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS

As at 30 June 2013, the persons or corporations (other than a director or chief executive of the Company) who had interest or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or had otherwise notified to the Company were as follows:

### Long positions in the shares of the Company

Name of substantial	Shareholder Capacity	Long positions in the shares		Approximate percentage of interest in the Company's issued share <sup>(1)</sup> capital
		Ordinary shares	Total	
HSBC International Trustee Limited	Trustee (other than a bare trustee) <sup>(2)</sup>	573,636,810	573,636,810	40.14%
River Road Investment Limited	Interest in controlled corporation <sup>(2)</sup>	508,746,810	508,746,810	35.61%
Knight Bridge Holdings Limited	Interest in controlled corporation <sup>(2)</sup>	508,746,810	508,746,810	35.61%
Ever Novel	Interest in controlled corporation <sup>(2),(3)</sup> Beneficial owner <sup>(2),(3)</sup>	367,115,715 141,631,095	508,746,810	35.61%
Prime Century	Beneficial owner <sup>(2),(3)</sup>	367,115,715	367,115,715	25.69%

Notes:

1. The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at 30 June 2013 (i.e. 1,428,847,128 shares).
2. HSBC International Trustee Limited is the trustee of family trusts which, through intermediate holding companies (including but not exclusively River Road Investment Limited, Knight Bridge Holdings Limited, Ever Novel and Prime Century), exercise or control the exercise of one third or more voting power at the general meetings of such companies and is deemed under the SFO to be interested in the shares of the Company held by such companies (573,546,810 shares in total). The rest 90,000 shares is held by HSBC International for its other clients.
3. As at 30 June 2013, Prime Century directly held 367,115,715 shares and Ever Novel directly held 141,631,095 shares in the Company. Ever Novel was entitled to exercise or control the exercise of one third or more of the voting power at the general meeting of Prime Century and was deemed to be interested in the 367,115,715 shares in the Company held directly by Prime Century.

Save as disclosed above, as at 30 June 2013, 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 and short positions in shares, underlying shares and debentures" 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.

# Disclosure of Interests

## ISSUE OF SHARES

During the period ended 30 June 2013, the Company completed a rights issue and issued 952,564,752 new shares with par value of HK\$0.01 each at a subscription price of HK\$0.36 each per rights share on the basis of two rights shares for every existing share held on the record date (i.e. 27 February 2013). The total amount which the Company raised from the rights issue was approximately HK\$342,920,000 (before expenses). 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.

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

During the period ended 30 June 2013, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the period ended 30 June 2013, all the code provisions set out in the Code on Corporate Governance Practices ("CG Code") contained in Appendix 14 of the Listing Rules were met by the Company, except for the deviation from code provision A.2.1 providing for the roles of chairman and chief executive officer (the "CEO") to be performed by different individuals.

Mr. Liu Xiaosong has diversified experience in the technology, media and telecommunication industry and has been being responsible for overall management and strategic planning of the Group. The Board considered that Mr. Liu is able to lead the Board in making better business decision for the group. Therefore, Mr. Liu has had the dual roles of the chairman and CEO of the Company despite deviation from code provision A.2.1 during the reporting period.

## COMPLIANCE WITH THE MODEL CODE

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

## AUDIT COMMITTEE

The audit committee, which comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters. The audit committee has reviewed the Group's unaudited Interim Accounts for the six months ended 30 June 2013.

By order of the Board

**A8 Digital Music Holdings Limited**

*Chairman*

**Liu Xiaosong**

Hong Kong, 21 August 2013