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: 800)

ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

- 2010 full year revenue amounted to RMB681.8 million, representing a slight decrease from RMB707.1 million in 2009.
- Profit attributable to the shareholders in 2010 decreased by 59% amounted to RMB41.8 million from RMB102.0 million in 2009.
- Excluding non-operating items and set up costs for new business lines of approximately RMB13.1 million and RMB21.8 million respectively, profit attributable to the shareholders decreased by 29% amounted to RMB76.7 million as compared with same period last year (2009: RMB108.7 million).
- Strong balance sheet, with cash and bank balance and highly liquid short term assets of RMB436.8 million and net assets of RMB521.5 million as of 31 December 2010.

The board (the "Board") of directors (the "Directors") of A8 Digital Music Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The results have been reviewed by the Audit Committee of the Company which comprises all the independent non-executive Directors.

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE		**681,839**	707,148
Business tax		**(11,493)**	(11,292)
Net revenue	5	**670,346**	695,856
Cost of services provided		**(418,573)**	(425,723)
Gross profit		**251,773**	270,133
Other income and gains, net	5	**13,758**	11,543
Selling and marketing expenses		**(142,768)**	(112,852)
Administrative expenses		**(64,801)**	(50,145)
Other expenses		**(10,529)**	(87)
PROFIT BEFORE TAX	6	**47,433**	118,592
Income tax expense	7	**(5,115)**	(16,423)
PROFIT FOR THE YEAR		**42,318**	102,169
Attributable to:			
Owners of the Company		**41,765**	102,008
Non-controlling interests		**553**	161
		42,318	102,169
DIVIDENDS	8	**–**	20,140
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	9		
Basic (RMB per share)		**0.09**	0.23
Diluted (RMB per share)		**0.09**	0.22

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	**2010**	2009
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**14,682**	6,379
Prepaid land lease payments		**27,411**	27,997
Goodwill		**3,710**	–
Prepayment for acquisition of intangible asset	*10*	**27,912**	–
Intangible assets		**13,254**	13,652
Deferred tax assets		**5,068**	1,803
Total non-current assets		**92,037**	49,831
CURRENT ASSETS			
Accounts receivable	*11*	**83,389**	121,926
Prepayments, deposits and other receivables		**28,843**	28,409
Investments at fair value through profit or loss		**19,374**	45,134
Time deposits with original maturity of more than three months		**24,849**	23,020
Cash and cash equivalents		**392,540**	333,801
Total current assets		**548,995**	552,290
CURRENT LIABILITIES			
Accounts payable	*12*	**43,722**	54,653
Other payables and accruals		**53,177**	42,036
Tax payable		**10,737**	18,793
Deferred income		**9,975**	1,200
Total current liabilities		**117,611**	116,682
NET CURRENT ASSETS		**431,384**	435,608
TOTAL ASSETS LESS CURRENT LIABILITIES		**523,421**	485,439
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,903**	2,661
Total non-current liabilities		**1,903**	2,661
Net assets		**521,518**	482,778
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*13*	**4,095**	4,045
Reserves		**516,597**	477,922
		520,692	481,967
Non-controlling interests		**826**	811
Total equity		**521,518**	482,778

NOTES

1. CORPORATE INFORMATION

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

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in providing mobile value-added services, focusing on music and culture related content through mobile phones in the People's Republic of China (the "PRC" or "Mainland China").

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Accounting Standards ("IASs") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") approved by the International Accounting Standards Committee that remain in effect.

The financial statements have been prepared under the historical cost convention, except for investments at fair value through profit or loss which have been measured at fair value. The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

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

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

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

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

2. **BASIS OF PREPARATION (CONTINUED)**

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

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

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

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

3. **CHANGES IN ACCOUNTING POLICY AND DISCLOSURES**

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

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included in *Improvements to IFRSs issued in May 2008*	Amendments to IFRS 5 *Non-Current Assets Held for Sale and Discontinued operations – Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

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

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

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

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

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

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

(b) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

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

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

4. OPERATING SEGMENT INFORMATION

The Directors consider that the Group's activities constitute one operating segment as the Group is principally engaged in providing mobile value-added services, focusing on music and culture content through mobile phones. Management makes decisions about resource allocation and performance assessment on a group basis.

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

Revenue of approximately RMB302,978,000 (2009: RMB312,875,000) and RMB54,532,000 (2009: RMB77,828,000) respectively were derived from providing mobile value-added services through mobile phones to the two largest customers.

5. REVENUE, OTHER INCOME AND GAINS, NET

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

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

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

6. PROFIT BEFORE TAX

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

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

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

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

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

7. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: Nil). The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing rates in the jurisdictions in which the subsidiaries operate.

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

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

8. DIVIDENDS

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

9. EARNINGS PER SHARE

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

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

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

10. PREPAYMENT FOR ACQUISITION OF INTANGIBLE ASSET

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

11. ACCOUNTS RECEIVABLE

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

The Group has no formal credit period communicated to its customers but the customers usually settle the amounts due to them within a period of 30 to 120 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts receivable are non-interest-bearing.

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

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

Receivables that were neither past due nor impaired 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.

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

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

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

12. ACCOUNTS PAYABLE

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

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

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

13. SHARE CAPITAL

Shares

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

A summary of the transactions in the Company's issued share capital is as follows:

	Number of issued and fully paid ordinary shares	Nominal value of ordinary shares	Share premium account	Equivalent nominal value of ordinary shares	Equivalent share premium account	Total
		HK$'000	*HK$'000*	*RMB'000*	*RMB'000*	
As at 1 January 2009	446,288,000	4,463	205,437	3,944	181,562	185,506
Exercise of share options	11,461,950	115	14,487	101	12,778	12,879
Proposed final dividends	–	–	(22,887)	–	(20,140)	(20,140)
As at 31 December 2009 and 1 January 2010	457,749,950	4,578	197,037	4,045	174,200	178,245
Exercise of share options	5,652,580	57	10,853	50	9,461	9,511
As at 31 December 2010	**463,402,530**	**4,635**	**207,890**	**4,095**	**183,661**	**187,756**

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

14. COMMITMENTS

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Revenue and profit attributable to owners of the Company

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

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

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

Cost of services provided

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

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

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

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

Gross profit

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

Other income and gains

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

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

Selling and marketing expenses

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

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

Administrative expenses

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

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

Other expenses

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

Income tax

The effective tax rate of the Group has been reduced to approximately 10.8% in 2010 (2009: approximately 13.8%). For the year ended 31 December 2010, the income tax expenses of the Group amounted to approximately RMB5.1 million (2009: approximately RMB16.4 million). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 0%, 15%, 22%, 25% for the respective operating subsidiaries of the Group for 2010 (2009: 15%, 20% and 25% respectively). Fluctuations in the effective tax rate and deviation from statutory tax rates are primarily due to the combined effect of the tax exemptions and tax reduction enjoyed by certain subsidiaries of the Group.

The decrease in the effective tax rate was mainly due to the fact that Shenzhen Kuaitonglian Technology Co., Ltd. ("Kuaitonglian") and Beijing Tianlai Cultural Broadcasting Co., Ltd. ("Tianlai"), which are subsidiaries of the Company, have been recognised as high technology enterprises in 2010. According to the New Corporate Income Tax Law and its Implementation Rules, high technology enterprises are entitled to the preferential tax rate of 15%, which is lower than the normal statutory tax rate in 2010. Besides, Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd. ("Yunhai") was recognized as a software and integrated circuit design corporation, which is entitled to a two-year exemption and a three-and-half-year 50% tax credit for corporate income tax since its profit-making year. Yunhai has confirmed that 2010 was its first profit-making year in which it was charged with a preferential tax rate of 0%.

Liquidity and Financial Resources

As at 31 December 2010, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, time deposits with original maturity of more than three months and investments at fair value through profit or loss amounted to approximately RMB436.8 million (2009: approximately RMB402.0 million). Approximately RMB290.1 million, or approximately 74% of the Group's cash and cash equivalents, was denominated in RMB.

As at 31 December 2010, the Group did not have any borrowing or debts. Accordingly, the gearing ratio which is measured by the net borrowings over the total equity is not applicable.

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

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

Non-current Assets

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

Current Assets and Current Liabilities

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

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

Cash Flow

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

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

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

Contingent Liabilities

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

Human Resources

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

Significant Event

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

Events After the Reporting Period

(a) On 17 January 2011, the Company granted 2,171,806 awarded shares to 170 awardees pursuant to the terms of the share award scheme ("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.

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

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

Business Outlook for 2011

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

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

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

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

Save as disclosed above, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of its shareholders and to enhance corporate value and accountability.

Good corporate governance has always been recognised as vital to the Group's success and to sustaining development of the Group. The Group is committed to a high standard of corporate governance as an essential component of quality and have introduced corporate governance practices appropriate to the conduct and growth of the business of the Group.

The Company has applied the principles as set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")

The CG Code sets out the principles of good corporate governance and two levels of corporate governance practices:

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

(b) recommended best practices for guidance only, which listed issuers are encouraged to comply with or to give considered reasons for deviation.

The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the CG Code.

Throughout the year ended 31 December 2010, the Company has complied with the code provisions as set out in the CG Code, except for the deviations from code provision A.2.1.

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer (the "CEO") should be separated and should not be performed by the same individual.

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

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

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.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding director's dealings in the Company's Securities (the "Own Code") on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with the Own Code and the Model Code throughout the year ended 31 December 2010.

The Company has also established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company.

No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

CLOSURE OF REGISTER OR MEMBERS

The register of members of the Company will be closed from Wednesday, 18 May 2011 to Friday, 20 May 2011, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the annual general meeting for the year 2011, unregistered holders of shares of the Company should ensure that all transfers of shares accompanied by the relevant share certificates and appropriate transfer forms must be lodged with the Share Registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Tuesday, 17 May 2011.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the accounting policies, accounting standards and practices adopted by the Group, discussed auditing, internal control and financial reporting matters, and reviewed the consolidated financial statements and results of the Group for the year ended 31 December 2010.

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

Hong Kong, 23 March 2011

As at the date of this announcement, the Board comprises of:
(1) executive Director namely Mr. Liu Xiaosong;
(2) non-executive Directors namely Mr. Li Wei and Ms. Ho Yip, Betty; and
(3) independent non-executive Directors namely Mr. Chan Yiu Kwong, Mr. Hui, Harry Chi and Mr. Zeng Liqing.