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 2008

The Board of Directors (the "Board") of A8 Digital Music Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008. The results have been reviewed by the Audit Committee of the Company, comprising all independent non-executive directors of the Company.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	3	**706,079**	285,964
Business tax		**(14,196)**	(7,860)
Net revenue		**691,883**	278,104
Cost of services provided		**(425,806)**	(149,375)
Gross profit		**266,077**	128,729
Other income and gains, net	3	**7,624**	20,180
Gain arising from disposal of an equity interest in a jointly-controlled entity		**–**	5,694
Selling and marketing expenses		**(115,281)**	(67,073)
Administrative expenses		**(44,180)**	(21,715)
Other expenses		**(17,257)**	(70)
Finance costs	4	**(2,015)**	(4,913)
Share of profits and losses of jointly-controlled entities		**–**	(347)
PROFIT BEFORE TAX	5	**94,968**	60,485
Tax	6	**(14,168)**	(5,248)
PROFIT FOR THE YEAR		**80,800**	55,237
Attributable to:			
Equity holders of the Company		**80,170**	55,274
Minority interests		**630**	(37)
		80,800	55,237
DIVIDEND	7	**Nil**	N/A
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8		
Basic (RMB per share)		**0.20**	N/A
Diluted (RMB per share)		**0.19**	N/A

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**6,328**	6,832
Prepaid land lease payments		**28,583**	–
Intangible assets		**703**	360
Deferred tax assets		**4,899**	–
Total non-current assets		**40,513**	7,192
CURRENT ASSETS			
Accounts receivable	9	**101,657**	64,809
Amounts due from related parties		**–**	59,708
Prepayments, deposits and other receivables		**19,572**	21,552
Equity investments at fair value through profit or loss		**1,949**	5,711
Tax recoverable		**–**	900
Cash and cash equivalents		**315,643**	131,315
Total current assets		**438,821**	283,995
CURRENT LIABILITIES			
Accounts payable	10	**58,617**	18,049
Other payables and accruals		**39,121**	18,753
Amount due to a related party		**–**	3,558
Tax payable		**10,997**	–
Deferred income		**4,000**	–
Total current liabilities		**112,735**	40,360
NET CURRENT ASSETS		**326,086**	243,635
TOTAL ASSETS LESS CURRENT LIABILITIES		**366,599**	250,827
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**813**	813
Convertible redeemable preferred shares		**–**	68,510
Total non-current liabilities		**813**	69,323
Net assets		**365,786**	181,504
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	11	**3,944**	512
Reserves		**361,192**	180,972
		365,136	181,484
Minority interests		**650**	20
Total equity		**365,786**	181,504

Notes:

1. CORPORATE INFORMATION AND GROUP REORGANISATION

The Company was incorporated as A8 Music International Limited in the Cayman Islands on 2 October 2007 as an exempted company with limited liability under the Companies Law, Cap 22 of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Pursuant to a special resolution dated 7 November 2007 and approved by the Registrar of Companies of the Cayman Islands, the name of the Company was changed to A8 Digital Music Holdings Limited on 7 November 2007.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 June 2008 (the "Listing Date").

On 2 October 2007, the Company was incorporated with authorised share capital of HK$380,000 divided into 3,800,000 ordinary shares of HK$0.10 each. On the same day, one ordinary share of HK$0.10 of the Company was allotted and issued with nil consideration to Codan Trust Company (Cayman) Limited, which was subsequently transferred to Mr. Liu Xiaosong ("Mr. Liu"). To rationalise the corporate structure in preparation for the listing of its shares on the Stock Exchange (the "Listing"), the Company underwent a reorganisation (the "Reorganisation") of which the following principal steps were implemented:

(a) On 5 May 2008, the Company subdivided each of its ordinary shares of HK$0.10 each into 10 shares of HK$0.01 each. The number of authorised and issued ordinary shares increased from 3,800,000 to 38,000,000 and from 1 to 10, respectively;

(b) On 21 May 2008, 930,000 ordinary shares of HK$0.01 each in the authorised share capital of the Company were converted into 930,000 series A convertible preferred shares of HK$0.01 each;

(c) On 22 May 2008, an instrument of transfer was signed between Mr. Liu, the then sole shareholder of the Company and Prime Century Technology Ltd. ("Prime Century", one of the then shareholders of A8 Music Group Limited ("A8 Music")), pursuant to which Mr. Liu transferred the 10 issued ordinary shares of HK$0.01 each of the Company held by him to Prime Century;

(d) On 26 May 2008, New Media Group Overseas Limited ("New Media"), a company then wholly-owned by Mr. Liu, acquired the entire issued capital of A8 Music in consideration of the issuance and allotment of its shares to the then shareholders of A8 Music, such that the shareholding structure of New Media immediately after the allotment was the same as the then shareholding structure of A8 Music; and

(e) On 26 May 2008, the Company acquired the entire issued capital of A8 Music in consideration of the Company's issued and allotted 6,449,990 ordinary shares and 930,000 series A convertible preferred shares of HK$0.01 each to the shareholders of New Media and the Company's crediting as fully paid the 10 ordinary shares of HK$0.01 each held by Prime Century.

Upon the completion of the Reorganisation on 26 May 2008, the Company became the holding company of the companies now comprising the Group.

The Group was principally engaged in selling music content through mobile phones as ringtone, ringback tone and interactive voice response ("IVR") music.

2(a). IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

2.1 Basis of presentation

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 26 May 2008. Since the Company and the companies now comprising the Group were under common control both before and after the completion of the Reorganisation, the Reorganisation was accounted for using merger accounting. The financial statements have been prepared on the basis as if the Company had always been the holding company of A8 Music.

The consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the years ended 31 December 2008 and 2007 include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the years ended 31 December 2008 and 2007, or since their respective dates of acquisition, incorporation or establishment, when this is a shorter period. The consolidated balance sheet of the Group as at 31 December 2007 has been prepared to present the state of affairs of the Group as if the current structure had been in existence and in accordance with the respective equity interests and/or the power to exercise control over the individual companies attributable to the Company as at the respective dates.

In the opinion of the directors, the consolidated financial statements prepared on the above basis present more fairly the results and the state of affairs of the Group as a whole.

2.2 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 ("IASB"), and International Accounting Standards (the "IASs") and Interpretations of 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 equity investments at fair value through profit or loss which has 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.

The Group has adopted the following new interpretations and amendments to IFRSs for the first time for current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
IFRIC-Int 11	IFRS 2 – *Group and Treasury Share Transactions*
IFRIC-Int 12	*Service Concession Arrangements*
IFRIC-Int 14	IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The Group has also early adopted the IFRS 1 and IAS 27 Amendments.

The early adoption of IFRS 1 and IAS 27 Amendments affects the cost of investment in subsidiaries in the separate financial statements of the parent entity only. There is no other impact on the Group's consolidated financial statements.

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

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

(b) IFRIC-Int 11 *IFRS 2 – Group and Treasury Share Transactions*

IFRIC-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group's current policy for share-based payment transactions aligns with the requirements of the interpretation, the interpretation has had no effect on its financial statements.

(c) IFRIC-Int 12 *Service Concession Arrangements*

IFRIC-Int 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(d) IFRIC-Int 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC-Int 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

(e) IFRS 1 and IAS 27 Amendments – *Amendments to IFRS 1 First time adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate.*

IAS 27 Amendment specifies the accounting in the separate financial statements when a newly formed entity becomes the new parent of another entity in a group:

– the new parent entity issues equity instruments as a consideration in the reorganisation

– there is no change in the group's assets or liabilities as a result of the reorganisation, and

– there is no change in the interest of the shareholders of the original parent, either absolute or relative to one another, as a result of the reorganisation.

In such case, the new parent entity shall measure the cost of investment at the carrying amount of its share of the equity items shown in the separate financial statements of the original parent at the date of the reorganisation. The early adoption of IFRS 1 and IAS 27 Amendments affects the cost of investment in the separate financial statement of the parent entity only. There is no other impact on the Group's consolidated financial statements.

2(b). SEGMENT INFORMATION

Over 90% of the Group's revenue and assets are generated from providing music and non-music services to mobile phone users and over 90% of the Group's revenue is derived from customers based in Mainland China. The Board considers that the Group's activities constitute one business segment since these activities are related and subject to common risks and returns. Accordingly, neither business nor geographical segment information is presented in accordance with IAS 14 *Segment Reporting*.

3. REVENUE, OTHER INCOME AND GAINS, NET

	2008 *RMB'000*	2007 *RMB'000*
Revenue		
Ringtone services	**86,882**	72,206
Ringback tone services	**272,912**	89,498
IVR music	**119,452**	20,748
Other music related services	**16,010**	14,990
Non-music related services	**210,823**	88,522
	706,079	285,964
Less: Business tax	**(14,196)**	(7,860)
Net revenue	**691,883**	278,104
Other income and gains, net		
Government grant	**3,000**	–
Interest income	**2,611**	1,138
Exchange gain	**26**	75
Gain on disposal of investments at fair value through profit or loss	**60**	3,083
Rendering of value-added services of mobile phone cards	**–**	7,004
Fair value gain on derivative financial instruments	**–**	3,067
Fair value gain on investments at fair value through profit or loss	**–**	2,885
Realisation of an unrealised gain arising from a transfer of assets from Shenzhen Huadong Feitian Network Development Co., Ltd. ("Huadong Feitian") to a jointly-controlled entity	**–**	1,450
Management fee income	**–**	900
Dividend income from investments at fair value through profit or loss	**–**	153
Gain on disposal of subsidiaries	**–**	152
Others	**1,927**	273
	7,624	20,180

4. FINANCE COSTS

	2008	2007
	RMB'000	*RMB'000*
Interest expense on convertible redeemable preferred shares	**2,015**	4,122
Amortisation of transaction costs	**–**	791
	2,015	4,913

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2008	2007
	RMB'000	*RMB'000*
Depreciation	**2,994**	3,500
Amortisation of intangible assets#	**87**	110
Amortisation of prepaid land lease payments#	**97**	–
Operating lease rentals in respect of office buildings	**3,541**	3,779
Auditors' remuneration	**1,408**	66
Employee benefit expense (including directors' remuneration):		
Wages, salaries and bonuses	**38,629**	27,475
Welfare, medical and other expenses	**1,200**	922
Contributions to social security plans	**3,750**	2,959
Equity-settled share option expenses	**7,089**	–
Others	**–**	881
	50,668	32,237
Loss on disposal of items of property, plant and equipment	**288**	4
Mobile and Telecom Charges*	**197,496**	67,969
Fair value loss on investments at fair value through profit or loss**	**3,811**	–

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.

6. TAX

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 (2007: Nil). The income tax for the subsidiaries operating in Mainland China is calculated at the prevailing rates, based on existing legislation, interpretations and practices in respect thereof.

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

	2008 *RMB'000*	2007 *RMB'000*
Group		
Current – PRC		
Charge for the year	**19,067**	5,248
Deferred	**(4,899)**	–
Total tax charge for the year	**14,168**	5,248

7. DIVIDEND

No interim dividend was declared for the six months ended 30 June 2008 and the Board does not recommend the payment of final dividend for the year.

On 26 May 2008, A8 Music declared a special dividend of RMB97,808,000 to its then sole shareholder, New Media. Such dividend was paid on the same day.

The Company granted 10,775,000 Pre-IPO share options to certain individuals in respect of their services to a business commonly owned by New Media, the then sole shareholder of the Company before the Listing. As these individuals had not provided any goods or services to the Group and the Group did not receive any valuable consideration from these individuals or the then sole shareholder of the Company for the Pre-IPO share options granted, management determines that the Pre-IPO shares options granted to these individuals are accounted for as a deemed distribution to the then sole shareholder of the Company.

8. EARNINGS PER SHARE

Earnings per share information for the year ended 31 December 2007 was not disclosed as the disclosure is not considered meaningful prior to the Reorganisation as disclosed in note 1 above.

The calculation of the basic earnings per share amount for the year ended 31 December 2008 is based on the profit for the year attributable to equity holders of the Company of RMB80,170,000 and the weighted average number of ordinary shares in issue during the year ended 31 December 2008 of 407,513,000, on the assumption that the Reorganisation and the capitalisation issue in connection with the Listing of the Company had been completed on 1 January 2008.

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit for the year attributable to equity holders of the Company of RMB80,170,000 as used in the basic earnings per share calculation. The weighted average number of ordinary shares used in the calculation is the 407,513,000 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 4,537,000 ordinary shares assumed to have been issued at nil consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares.

9. ACCOUNTS RECEIVABLE

	Group	
	2008 ***RMB'000***	2007 *RMB'000*
Accounts receivable	**101,657**	66,065
Impairment	**–**	(1,256)
	101,657	64,809

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

	Group	
	2008	2007
	RMB'000	*RMB'000*
Neither past due nor impaired:		
Within 1 month	**45,314**	29,091
1 to 2 months	**23,201**	13,658
2 to 3 months	**16,797**	7,282
3 to 4 months	**5,924**	6,100
Past due but not impaired:		
4 to 6 months	**7,806**	5,121
Over 6 months	**2,615**	3,557
	101,657	64,809

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

10. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2008	2007
	RMB'000	*RMB'000*
Within 1 month	**18,378**	8,576
1 to 3 months	**21,927**	7,073
4 to 6 months	**12,554**	702
Over 6 months	**5,758**	1,698
	58,617	18,049

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

11. SHARE CAPITAL

Shares

	2008	2007
	RMB'000	*RMB'000*
Authorised:		
3,000,000,000 (2007: 7,700,000) ordinary shares of HK$0.01 each (2007: US$0.01 each)	**26,513**	593
Issued and fully paid:		
446,288,000 (2007: 6,450,000) ordinary shares of HK$0.01 each (2007: US$0.01 each)	**3,944**	512

The balance of the authorised and issued share capital as at 31 December 2007 represents the authorised and issued share capital of A8 Music, the then holding company of the companies comprising the Group. The balance of the authorised and issued share capital as at 31 December 2008 represents the authorised and issued share capital of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2008, the Company strengthened its efforts in collecting original independently produced music content. We have successfully hosted the 2008 Original Music Competition in China with over 4,000 entries. The Company also expanded its business to the overseas markets; we have established a strategic partnership with the Hong Kong original produced music website www.greencoffee.com.hk, adding Hong Kong as a new market where we collect original contents.

In 2008, the total revenue generated from music and music related products increased by 150% to approximately RMB495.0 million, UGC contributed to about 38% of our total music and music related revenue as compared with 27% in 2007, the total revenue generated from UGC increased 270% to approximately RMB182.8 million. "寂寞才說愛", an original independently produced song promoted by us, recorded over 18 million downloads in year 2008.

We continue to develop A8 Box, our proprietary pre-set software installed in mobile handsets which facilitates mobile phone subscribers to access our mobile music services directly from their mobile phone, to be applicable to different platforms and offer more music services. Nokia Widsets version (S60 5.0) and MTK08B were added during 2008 to the existing platforms. In addition, we have introduced the "shake" control technology in the fourth quarter of 2008. The function enables user to choose the next song by "shaking" the handset.

Revenue and profit attributable to equity holders of the Company

For the year ended 31 December 2008, the revenue of the Group amounted to approximately RMB706.1 million, representing an increase of approximately 147% as compared with 2007 (2007: approximately RMB286.0 million).

For the year ended 31 December 2008, the profit attributable to equity holders of the Company amounted to approximately RMB80.2 million, representing an increase of approximately 45% as compared with 2007 (2007: approximately RMB55.3 million). There was a one-off listing expenses of approximately RMB10.2 million and non-operating related share option expenses of approximately RMB7.1 million incurred in 2008 and a one-off disposal gain of approximately RMB5.7 million in 2007. Excluding these one-off and non-operating related items and income, the net profits generated from core business attributable to equity holders of the Company was approximately RMB97.5 million (2007: approximately RMB49.6 million), representing an increase of approximately 97% as compared with 2007.

The rapid growth in revenue was due to the strong growth of the mobile music industry in China. The colour ring (or ringback tone) revenue and subscription increased by 22% and 73%, from 780 million times to 1.35 billion times for the year ended 2008 respectively, based on China Mobile's 2008 annual results.

As mentioned in our interim report for the six months ended 30 June 2008, the rapid growth in revenue was also due to the successful execution of our integrated marketing strategies on new media (i.e. internet and mobile), as well as on traditional media (i.e. TV and radio). It was also attributable to a nationwide exclusive partnership event with one of the major mobile operators, as the sole organizer and promoter, for the "Happy Chinese New Year" event held from January to March 2008. This was one of the festival events held during the year, among which the Group had also participated in "Use Music to Move Olympics" which lasted from April to November in 2008.

Cost of services provided

For the year ended 31 December 2008, the cost of services provided by the Group amounted to approximately RMB425.8 million, representing an increase of approximately 185% as compared with 2007 (2007: approximately RMB149.4 million).

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

Revenue share with mobile operators was charged from 15% to 50% of the total revenue received from mobile users and it averaged approximately 28% of the total revenue for the year ended 31 December 2008 (2007: approximately 24%). The increase was due to the shift of significance of product mix from ringtones to ringback tones which were charged at a higher revenue sharing rate by the mobile operators.

Revenue share with business alliances averaged approximately 29% of the total revenue for the year ended 31 December 2008 (2007: approximately 22%). The increase was mainly due to the increase in revenue share with business alliances in order to enhance the Group's market share.

Gross profit

For the year ended 31 December 2008, the gross profit of the Group amounted to approximately RMB266.1 million, representing an increase of approximately 107% as compared with 2007 (2007: approximately RMB128.7 million).

The overall gross profit margin of the Group decreased from approximately 45% to 38%.

Combining the selling and marketing expenses and the cost of services provided, the adjusted total cost of sales for the year ended 31 December 2008 was approximately RMB541.1 million (2007: approximately RMB216.4 million). It represented a gross profit including selling and marketing expenses of approximately RMB150.8 million (2007: approximately RMB61.7 million). The gross profit margin including selling and marketing expenses was approximately 21% for the year ended 31 December 2008 (2007: approximately 22%), maintaining a level comparable to that of year 2007.

Other income and gains

For the year ended 31 December 2008, the other income and gains of the Group were approximately RMB7.6 million, representing a decrease of approximately 62% as compared with 2007 (2007: net gain of approximately RMB20.2 million).

The decrease was mainly due to the termination of a non-recurring gain of a project with one of the mobile operators amounted to approximately RMB7.0 million, fair value gain of derivative financial instruments and gain on disposal of investments at fair value through profit and loss amounted to approximately RMB6.0 million in aggregate in 2007.

Selling and marketing expenses

For the year ended 31 December 2008, the selling and marketing expenses of the Group amounted to approximately RMB115.3 million, representing approximately 16% of total revenue (2007: approximately RMB67.1 million, representing approximately 23% of total revenue). As a result of effective cost control, it was at 7% lower than year 2007.

Administrative expenses

For the year ended 31 December 2008, the administrative expenses of the Group amounted to approximately RMB44.2 million, representing an increase of approximately 104% as compared with 2007 (2007: approximately RMB21.7 million).

The increase was mainly due to the increase of professional expenses amounting to approximately RMB6.6 million and the share option expense amounting to approximately RMB7.1 million. Excluding these two factors, the administrative expenses were approximately RMB30.5 million which representing a modest growth as compared with the growth of revenue.

Other expenses

For the year ended 31 December 2008, the other expenses of the Group amounted to approximately RMB17.3 million (2007: approximately RMB0.07 million).

The increase was mainly due to the one-off listing expenses amounted to approximately RMB10.2 million.

Finance costs

For the year ended 31 December 2008, the finance costs of the Group amounted to approximately RMB2.0 million, representing a decrease of approximately 59% as compared with the same period in 2007 (2007: approximately RMB4.9 million).

The decrease was mainly due to the termination of the accrued interest expense of the convertible redeemable preferred shares upon listing of the Company's shares on the Listing Date.

Tax

For the year ended 31 December 2008, the income tax expenses of the Group amounted to approximately RMB14.2 million, representing an increase of approximately 173% as compared with 2007 (2007: approximately RMB5.2 million). The effective tax rate of the Group increased to approximately 15% in 2008 (2007: approximately 9%).

The increase of effective tax rate was mainly due to the new Corporate Income Tax Law (the "New Corporate Income Tax Law") of the People's Republic of China ("PRC"), which took effect on 1 January 2008. The New Corporate Income Tax Law increases the applicable tax rates of the Group's subsidiaries by terminating the preferential tax treatment that such subsidiaries entitled before 2008. As a result, the 2008 statutory tax rates are 9%, 18% and 25% in the respective operating subsidiaries of the Group (2007: 0%, 7.5%, 15% and 33% 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.

Nevertheless, Huadong Feitian, a subsidiary of the Company, has been recognized as a high technology enterprise in 2008. According to the New Corporate Income Tax Law and its Implementation Rules, Huadong Feitian is entitled to the preferential tax rate of 15%, which is lower than the normal statutory tax rate of 18% in 2008.

Liquidity and Financial Resources

As at 31 December 2008, cash and bank balances of the Group amounted to approximately RMB315.6 million (2007: approximately RMB131.3 million), and approximately RMB185.9 million, or approximately 59% of the Group's total cash and cash equivalents, were denominated in RMB.

As at 31 December 2008, the Group did not have any borrowing or debts.

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

As at 31 December 2008, the Group did not have any derivatives for hedging against both the interest and exchange rate risks.

Current Assets and Current Liabilities

As at 31 December 2008, the total current assets of the Group amounted to approximately RMB438.8 million (2007: approximately RMB284.0 million). The increase was mainly due to the proceeds from the issue of new shares during the initial public offer ("IPO") of the Company in June 2008. Accounts receivable amounted to approximately RMB101.7 million (2007: approximately RMB64.8 million), and the turnover days of accounts receivable decreased from 82 days in 2007 to 52 days in 2008.

As at 31 December 2008, the total current liabilities of the Group amounted to approximately RMB112.7 million (2007: approximately RMB40.4 million). The increase was mainly due to: (1) accounts payables amounted to approximately RMB58.6 million (2007: approximately RMB18.0 million), and the turnover days of accounts payable increased from 44 days in 2007 to 50 days in 2008. (2) other payables and accruals amounted to approximately RMB39.1 million (2007: approximately RMB18.8 million), which mainly due to the increase of the unsettled promotion expenses of approximately RMB14.4 million and the increase of the accrual bonus and professional expense of approximately RMB4.6 million.

Cash Flow

Net cash inflow from operating activities of the Group for the year ended 31 December 2008 was approximately RMB132.1 million, resulted from cash generated from operations of approximately RMB139.3 million and tax paid of approximately RMB7.2 million.

Net cash inflow from investing activities of the Group for the year ended 31 December 2008 was approximately RMB26.3 million, which was mainly due to the decrease in amounts due from related parties of approximately RMB59.7 million which was settled in February 2008. The inflow was partly set off by the outflow from the purchase of prepaid land lease payment of approximately RMB29.3 million.

Net cash inflow from financing activities of the Group for the year ended 31 December 2008 was approximately RMB30.4 million, which was mainly due to the proceeds from issue of shares in connection with the IPO of the Company of approximately RMB134.3 million. The inflow was partly set off by the outflow from the distribution to a shareholder of a subsidiary of approximately RMB97.8 million.

Dividend

No interim dividend was declared for the six months ended 30 June 2008 and the Board does not recommend the payment of final dividend for the year.

Charges and Contingent Liabilities

As at 31 December 2008 and 2007, the Group had no charges on its assets and no material contingent liabilities.

Human Resources

As at 31 December 2008, the Group employed 333 employees. The Group determines the remuneration of its staff based on various factors such as qualifications and years of experience. Total employee costs for the year ended 31 December 2008, including directors' emoluments, amounted to approximately RMB43.6 million (2007: approximately RMB31.4 million).

Significant Event

Acquisition of Land Use Rights for a parcel of land in Shenzhen

On 6 November 2008, Huadong Feitian, a subsidiary of the Company entered into an agreement with Shenzhen Land Bureau for the acquisition of the land use rights of a parcel of land for an aggregate cash consideration of approximately RMB29.3 million. The land use rights for the parcel of land ("Land") situated at Lot No. T204-0111, Southern District of Hi-Tech Industry Park, Nanshan District, Shenzhen, Guangdong Province, the PRC with a total gross floor area of approximately 4,745 square meters is to be used for industrial purpose. As at 31 December 2008, no property had been erected on the Land. Commercial buildings will be constructed on the Land principally for promoting original independently produced music content and research and development in relation to digital-music business.

Use of proceeds

The Company raised approximately HK$152 million and HK$10.9 million of gross proceeds through the IPO of the Company and the partial exercise of the over-allotment option on the Listing Date and 2 July 2008, respectively. As described in the prospectus of the Company dated 28 May 2008, the intended use of proceeds is as follows:

– potential acquisitions that offer synergy with the current business operation of the Group;

– further developing A8 Box;

– integrating the Group's business with the introduction of 3G mobile technology;

– upgrading the interactive User Generated Platform ("UGC Platform") www.a8.com;

– promoting the UGC Platform;

– promoting the original independently produced music content; and

– providing additional working capital for the Group.

The proceeds had not been utilised as at 31 December 2008, and are deposited in bank in Hong Kong. Going forward, the Company expects to carry out its business plan with gross proceeds as intended in the prospectus.

Business Outlook

Looking forward, the global economy will continue to face severe challenges in 2009. However, we believe the Chinese economy is going to maintain relatively high growth braced by the aggressive economic stimulus packages recently announced by the government, including those pinpointing the culture related industry in Shenzhen. These government efforts are going to create a macro environment favorable for the growth and development of the Company.

For the digital music industry, the restructured telecom sector and the deployment of 3G will present tremendous business opportunities to us. Mobile music related revenue has become one of the major growth drivers over voice revenue for mobile operators.

In 2009, we will, building on our proven track record in digital music services and our consolidated strength, take full advantage of our music content, strong marketing and promotional capacities and our effective and consistant operating team to maintain growth momentum and push for improvement of our results.

To prepare for our future growth, the Company has been active in developing 3G related music services and products, promoting more personality services and 3G compatible applications on A8 Box, strengthening partnership with all of the three operators and enhancing cooperation, in the aspect of contents, with record labels and original music producers.

It will be a challenging year in 2009 with the consequences from the financial crisis, but we are striving to maintain a consistent and sustainable growth as well as to create value of our shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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 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. We are 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 our business.

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 contained in Appendix 14 of the Listing Rules 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 period ended 31 December 2008, the Company has complied with the code provisions as set out in the CG Code, except for the deviations from code provisions A.1.1 and A.2.1 which are explained below.

Code provision A.1.1 prescribes that at least 4 regular board meetings should be held in each year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

After the Company was listed on the Stock Exchange on 12 June 2008 and up to the period ended 31 December 2008, three board meetings were held for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Code provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

Mr. Liu Xiaosong has over 15 years of experience in the technology, media and telecommunication industry and is responsible for overall management and strategic planning of the Group. The Board considers Mr. Liu, the chairman of the Board and chief executive officer of the Company, is able to lead the Board in major business decisions making for the Group. Therefore, Mr. Liu has the dual roles of the chairman of the Board and chief executive officer of the Company despite deviation from code provision A.2.1 during the reporting period.

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 directors' 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 to all the directors and the directors have confirmed that they have complied with the Own Code and the Model Code throughout the period ended 31 December 2008.

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.

AUDIT COMMITTEE

The audit committee, which comprises three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. The audit committee has reviewed the consolidated financial statements and results of the Group for the year ended 31 December 2008.

CLOSURE OF REGISTER OR MEMBERS

The register of members of the Company will be closed from Tuesday, 19 May 2009 to Thursday, 21 May 2009, 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 year 2009, 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 Monday, 18 May 2009.

A8 Digital Music Holdings Limited
Liu Xiaosong
Chairman

Hong Kong, 25 March 2009

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Liu Xiaosong, Ms. Ho Yip, Betty and Mr. Lin Yizhong, one non-executive Director, namely Mr. Li Wei and three independent non-executive Directors, namely Mr. Chan Yiu Kwong, Mr. Hui, Harry Chi and Mr. Song Yong Hua.