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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2013

The board (the "**Board**") of directors (the "**Directors**") 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. The Interim Accounts have not been reviewed by the Company's auditors but they have been reviewed by the audit committee of the Company:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2013

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2013

	Notes	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
NON-CURRENT ASSETS			
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
CURRENT ASSETS			
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
CURRENT LIABILITIES			
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
NET CURRENT ASSETS		**499,260**	343,562
TOTAL ASSETS LESS CURRENT LIABILITIES		**746,635**	591,835
NON-CURRENT LIABILITIES			
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
EQUITY			
Equity attributable to owners of the Company			
Issued capital	12	**11,914**	4,203
Reserves		**723,084**	510,957
		734,998	515,160
Non-controlling interests		**(534)**	106
Total equity		**734,464**	515,266

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies and basis of preparation adopted in the preparation of the unaudited condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 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	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – *Transition Guidance*
IFRS 10, IFRS 12 and IAS 27 (revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – *Investment Entities*
IFRS 13	*Fair Value Measurement*
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
IAS 27 (Revised)	*Separate Financial Statements*
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*
Annual Improvements 2009-2011 Cycle	*Amendments to a number of IFRSs issued in May 2012*

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

2. OPERATING SEGMENT INFORMATION

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

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

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:

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

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:

	30 June 2013	31 December 2012	14 December 2012
Expected volatility *(i)*	**51.38%**	53.45%	55.62%
Dividend yield	**–**	–	–
Option life (Year(s))	**3.46**	3.96	4.0
Risk-free interest rate *(ii)*	**0.831%**	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-fee 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:

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

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

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

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

12. SHARE CAPITAL

Shares

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

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)
At 30 June 2013	**1,428,847,128**	**14,290**	**537,705**	**11,914**	**450,770**	**462,684**

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.

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

MANAGEMENT DISCUSSION AND ANALYSIS

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 down trend of our MVAS business plus our active focus on mobile business, we disposed of some traditional wireless value-added business that is to be replaced in the future as we anticipated. We are actively taking trend of growth of mobile internet in digital music and mobile gaming business. However, the transformation in business still need time to cover the downturn of revenue.

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 leverage 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 was 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 was 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 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. This 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: appoximately 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 was released for 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, Duomi Music accounted for 57.2% mobile music usage by end-users in China, 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 which was fixed fees together with free traffic integrated with mobile carriers like China Unicom. 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.

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 chain

Regarding music contents, the Group will strengthen the resourcing, publishing and distributing businesses of digital music contents, continue to update A8.com website, in which will 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.

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).

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

As at the date of this announcement, the Board comprises:

(1) Executive Directors namely Mr. Liu Xiaosong, Mr. Lu Bin; and

(2) Independent non-executive Directors namely Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Song Ke.