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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 2009

FINANCIAL HIGHLIGHTS

- Strong sequential revenue growth of 43% in 2H09 from 1H09, 2H09 YoY up 11%
- 2009 full year revenue amounted to RMB707 million, representing a slight increase from RMB706 million in 2008
- Excluding one-off event held in 2008, revenue increased by 8%, in line with the industry growth
- Profit attributable to owners of the Company in 2009 increased by 27% amounted to RMB102 million from RMB80 million in 2008
- Strong balance sheet, with cash and bank balance and highly liquid short term assets of RMB402 million and net assets of RMB483 million as of 31 December 2009
- The Board has proposed a final dividend of HKD0.05 per share

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 2009. The results have been reviewed by the Audit Committee of the Company, comprising all the independent non-executive Directors.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	4	**707,148**	706,079
Business tax		**(11,292)**	(14,196)
Net revenue		**695,856**	691,883
Cost of services provided		**(425,723)**	(425,806)
Gross profit		**270,133**	266,077
Other income and gains, net	4	**11,543**	7,624
Selling and marketing expenses		**(112,852)**	(115,281)
Administrative expenses		**(50,145)**	(44,180)
Other expenses		**(87)**	(17,257)
Finance costs	5	**–**	(2,015)
PROFIT BEFORE TAX	6	**118,592**	94,968
Income tax expense	7	**(16,423)**	(14,168)
PROFIT FOR THE YEAR		**102,169**	80,800
Attributable to:			
Owners of the Company		**102,008**	80,170
Minority interests		**161**	630
		102,169	80,800
DIVIDENDS (HKD0.05 per share)	8	**20,140**	Nil
EARNINGS PER SHARE	9		
Basic *(RMB per share)*		**0.23**	0.20
Diluted *(RMB per share)*		**0.22**	0.19

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	**2009** **RMB'000**	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**6,379**	6,328
Prepaid land lease payments		**27,997**	28,583
Intangible assets		**13,652**	703
Deferred tax assets		**1,803**	4,899
Total non-current assets		**49,831**	40,513
CURRENT ASSETS			
Accounts receivable	*10*	**121,926**	101,657
Prepayments, deposits and other receivables		**28,409**	19,572
Investments at fair value through profit or loss		**45,134**	1,949
Time deposits with original maturity of more than three months		**23,020**	–
Cash and cash equivalents		**333,801**	315,643
Total current assets		**552,290**	438,821
CURRENT LIABILITIES			
Accounts payable	*11*	**54,653**	58,617
Other payables and accruals		**42,036**	39,121
Tax payable		**18,793**	10,997
Deferred income		**1,200**	4,000
Total current liabilities		**116,682**	112,735
NET CURRENT ASSETS		**435,608**	326,086
TOTAL ASSETS LESS CURRENT LIABILITIES		**485,439**	366,599
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,661**	813
Total non-current liabilities		**2,661**	813
Net assets		**482,778**	365,786
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*12*	**4,045**	3,944
Reserves		**477,922**	361,192
		481,967	365,136
Minority interests		**811**	650
Total equity		**482,778**	365,786

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 of 2009, the Group was principally engaged in selling music content through mobile phones as ringtones, ringback tones and interactive voice response ("IVR") music in the People's Republic of China (the "PRC" or "Mainland China").

2. BASIS OF PRESENTATION AND PREPARATION

2.1 Basis of presentation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

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 (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.

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

IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

* Included in Improvements to IFRSs 2009 (as issued in April 2009).

Other than as further explained below regarding the impact of IFRS 2 Amendments, IFRS 8 and IAS 1 (Revised), the adoption of these new and revised IFRSs has had no significant effect on these financial statements.

IFRS 2 Amendments

Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

IFRS 8

Operating Segments

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. These revised disclosures are shown in note 3 below.

IAS 1 (Revised)

Presentation of Financial Statements

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

The Group has not applied any new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

The directors consider that the Group's activities constitute one operating segment as the Group is principally engaged in selling music 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 RMB312,875,000 (2008: RMB324,956,000) and RMB77,828,000 (2008: RMB55,572,000) respectively were derived from selling music content through mobile phone to the two largest customers.

4. 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:

	2009	2008
	RMB'000	*RMB'000*
Revenue		
Ringtone services	**99,684**	86,882
Ringback tone services	**204,502**	272,912
IVR music	**102,232**	119,452
Other music related services	**40,901**	16,010
Non-music related services	**259,829**	210,823
	707,148	706,079
Less: Business tax	**(11,292)**	(14,196)
Net revenue	**695,856**	691,883
Other income and gains, net		
Interest income	**5,095**	2,611
Gain on disposal of investments at fair value through profit or loss	**1,468**	60
Fair value gain on investments at fair value through profit or loss	**1,181**	–
Excess over the cost of a business combination	**265**	–
Government grant	**–**	3,000
Exchange gain	**28**	26
Others	**3,506**	1,927
	11,543	7,624

5. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest expense on convertible redeemable preferred shares	**–**	2,015

6. PROFIT BEFORE TAX

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

	2009	2008
	RMB'000	*RMB'000*
Depreciation	**2,855**	2,994
Amortisation of intangible assets#	**939**	87
Amortisation of prepaid land lease payments#	**586**	97
Operating lease rentals in respect of office buildings	**4,808**	3,541
Auditors' remuneration	**1,014**	1,408
Employee benefit expense (including directors' remuneration):		
Wages, salaries and bonuses	**41,441**	38,629
Welfare, medical and other expenses	**2,995**	1,200
Contributions to social security plans	**5,386**	3,750
Equity-settled share option expenses	**6,650**	7,089
	56,472	50,668
Loss on disposal of items of property, plant and equipment	**388**	288
Mobile and telecom charges*	**195,108**	197,496
Fair value (gain)/loss on investments at fair value through profit or loss	**(1,181)**	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.

7. INCOME 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 (2008: 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:

	2009	2008
	RMB'000	*RMB'000*
Group		
Current – PRC		
Charge for the year	**12,783**	19,067
Deferred	**3,640**	(4,899)
Total tax charge for the year	**16,423**	14,168

8. DIVIDENDS

The Board has recommended the payment of a final dividend of HKD0.05 per share (2008: Nil), amounting to approximately RMB20,140,000, from the Company's share premium account. Such dividend is to be approved by the shareholders of the Company at the Annual General Meeting to be held in May 2010. These financial statements have not reflected the payable of this dividend. This dividend will be reflected as an appropriation of the Company's share premium account and a dividend payable will be recognised in the financial statements of the Company for the year ended 31 December 2010.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share amount for the year ended 31 December 2009 is based on the profit for the year attributable to equity holders of the Company of RMB102,008,000 (2008: RMB80,170,000) and the weighted average number of ordinary shares in issue during the year ended 31 December 2009 of 451,696,000 (2008: 407,513,000).

The calculation of diluted earnings per share for the year ended 31 December 2009 is based on the profit for the year attributable to equity holders of the Company of RMB102,008,000 (2008: 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 451,696,000 (2008: 407,513,000) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 8,598,000 (2008: 4,537,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of dilutive potential ordinary shares into ordinary shares.

10. ACCOUNTS RECEIVABLE

	Group	
	2009	2008
	RMB'000	*RMB'000*
Accounts receivable	**121,926**	101,657

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

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

	Group	
	2009	2008
	RMB'000	*RMB'000*
At 1 January	**–**	1,256
Amount written off as uncollectible	**–**	(1,256)
At 31 December	**–**	–

The individually impaired accounts receivable in 2008 related to customers that were in default. The Group did not hold any collateral or other credit enhancements over these balances.

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	
	2009	2008
	RMB'000	*RMB'000*
Neither past due nor impaired:		
Within 1 month	**66,304**	45,314
1 to 2 months	**31,420**	23,201
2 to 3 months	**10,656**	16,797
3 to 4 months	**4,882**	5,924
Past due but not impaired:		
4 to 6 months	**6,387**	7,806
Over 6 months	**2,277**	2,615
	121,926	101,657

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.

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:

	Group	
	2009	2008
	RMB'000	*RMB'000*
Within 1 month	**25,774**	18,378
1 to 3 months	**18,480**	21,927
4 to 6 months	**5,881**	12,554
Over 6 months	**4,518**	5,758
	54,653	58,617

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

12. SHARE CAPITAL

Shares

	2009	2008
	RMB'000	*RMB'000*
Authorised:		
3,000,000,000 (2008: 3,000,000,000) ordinary shares of HK$0.01 each	**26,513**	26,513
Issued and fully paid:		
457,749,950 (2008: 446,288,000) ordinary shares of HK$0.01 each	**4,045**	3,944

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	Equivalent nominal value of ordinary shares	Equivalent share premium	Total
		HK$'000	*HK$'000*	*RMB'000*	*RMB'000*	*RMB'000*
On incorporation	–	–	–	–	–	–
Issue of shares in connection with the reorganisation	6,450,000	65	–	57	–	57
Conversion of preferred shares	930,000	9	74,924	8	66,218	66,226
Capitalisation issue	352,620,000	3,526	(3,526)	3,116	(3,116)	–
Issue of shares in connection with the listing	80,000,000	800	151,200	707	133,628	134,335
Remuneration shares issued	528,000	5	(5)	5	(5)	–
Over-allotment of shares	5,760,000	58	10,400	51	9,191	9,242
Deemed distribution	–	–	(10,148)	–	(8,969)	(8,969)
	446,288,000	4,463	222,845	3,944	196,947	200,891
Share issue expenses	–	–	(17,408)	–	(15,385)	(15,385)
As at 31 December 2008 and 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
As at 31 December 2009	**457,749,950**	**4,578**	**219,924**	**4,045**	**194,340**	**198,385**

During the year, a total of 10,360,630 share options under pre-IPO share option scheme were exercised at exercise prices ranging from HKD0.16 to HKD0.91 per share, and a total of 1,101,320 share options under share option scheme were exercised at an exercise price of HKD1.18 per share.

13. COMMITMENTS

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

	31 December 2009	31 December 2008
	RMB'000	*RMB'000*
Authorised, but not contracted for:		
Land and buildings	**120,000**	120,000

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Revenue and profit attributable to owners of the Company

For the second half of 2009, the revenue of the Group amounted to approximately RMB416.4 million, representing significant increase of 43.2% and 10.5% as compared with the first half in 2009 and the same period in 2008 respectively.

For the year ended 31 December 2009, the revenue of the Group amounted to approximately RMB707.1 million, representing a slight increase as compared with 2008 (2008: approximately RMB706.1 million).

An exclusive one-off event was held with one of the mobile operators in 2008. It attributed approximately RMB48.6 million gross revenue and approximately RMB9.3 million net profit for the year ended 31 December 2008. Excluding the impact of this one-off event, the revenue of the Group represented an increase of approximately 8% as compared with 2008, which is in line with the industry's growth.

For the year ended 31 December 2009, the profit attributable to owners of the Company amounted to approximately RMB102.0 million, representing an increase of approximately 27.2% as compared with 2008 (2008: approximately RMB80.2 million).

Cost of services provided

For the year ended 31 December 2009, cost of services provided by the Group amounted to approximately RMB425.7 million, maintaining about the same level as compared with 2008 (2008: approximately RMB425.8 million).

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

Revenue share with mobile operators was charged from 15% to 50% of the total revenue received from mobile users and it averaged approximately 27.6% of the total revenue for the year ended 31 December 2009 (2008: approximately 27.7%).

Revenue share with business alliances slightly increased to approximately 29.7% of the total revenue for the year ended 31 December 2009 (2008: approximately 29.1%).

Gross profit

For the year ended 31 December 2009, the gross profit of the Group amounted to approximately RMB270.1 million, representing an increase of approximately 2% as compared with 2008 (2008: approximately RMB266.1 million). The overall gross profit margin of the Group increased from approximately 37.7% to 38.2%.

Combining the selling and marketing expenses and the cost of services provided, the adjusted total cost of sales for the year ended 31 December 2009 was approximately RMB538.6 million (2008: approximately RMB541.1 million). It represented a gross profit including selling and marketing expenses of approximately RMB157.3 million (2008: approximately RMB150.8 million). The gross profit margin including selling and marketing expenses increased to approximately 22% for the year ended 31 December 2009 (2008: approximately 21%).

Other income and gains

For the year ended 31 December 2009, the other income and gains of the Group were approximately RMB11.5 million, representing an increase of approximately 51% as compared with 2008 (2008: net gain of approximately RMB7.6 million).

The increase was mainly due to the increase of interest income amounted to approximately RMB2.5 million and gain on disposal of investment at fair value through profit or loss amounted to approximately RMB1.4 million in 2009.

Selling and marketing expenses

For the year ended 31 December 2009, the selling and marketing expenses of the Group amounted to approximately RMB112.9 million, maintaining at about the same level as compared with 2008, at 16.0% of total revenue (2008: approximately RMB115.3 million, representing 16.3% of total revenue).

Included in selling and marketing expenses were sales related headcounts which increased by around 11%, we have recruited the team gradually towards the end of the year in order to prepare for the expansion of our business. While other selling and marketing expenses were cut down by 7% as compared with 2008.

Administrative expenses

For the year ended 31 December 2009, the administrative expenses of the Group amounted to approximately RMB50.1 million, representing an increase of approximately 13.3% as compared with 2008 (2008: approximately RMB44.2 million).

The increase was mainly due to the increase in back office headcounts and rental expenses, amounted to approximately RMB3.6 million and RMB1.0 million respectively.

Other expenses

For the year ended 31 December 2009, the other expenses of the Group amounted to approximately RMB87,000 (2008: approximately RMB17.3 million).

The decrease was mainly due to the one-off listing expenses which amounted to approximately RMB10.2 million in 2008.

Finance costs

For the year ended 31 December 2009, there was no finance costs (2008: approximately RMB2.0 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 12 June 2008.

Income tax

The effective tax rate of the Group has been reduced to approximately 13.8% in 2009 (2008: approximately 14.9%). For the year ended 31 December 2009, the income tax expenses of the Group amounted to approximately RMB16.4 million (2008: approximately RMB14.2 million). As a result of the new Corporate Income Tax Law in China, the statutory tax rates are 15%, 20%, 25% for the respective operating subsidiaries of the Group for 2009 (2008: 9%, 15%, 18% 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 Beijing Aiyue Cultural Broadcasting Co., Ltd. ("Aiyue") and Beijing Yuesheng Feiyang Music Culture Broadcasting Co., Ltd ("Yuesheng Feiyang"), which are subsidiaries of the Company, have been recognised as high technology enterprises in 2009. 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 2009. It was also due to the one-off tax exemption of Aiyue and Yuesheng Feiyang in the prior year which amounted to approximately RMB1.1 million.

Liquidity and Financial Resources

As at 31 December 2009, 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 RMB402.0 million (2008: approximately RMB317.6 million). Approximately RMB236.3 million, or approximately 70.8% of the Group's cash and cash equivalents, were denominated in RMB.

As at 31 December 2009, 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 2009, 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 2009, the total current assets of the Group amounted to approximately RMB552.3 million (2008: approximately RMB438.8 million). The increase was mainly due to the increase of cash which mainly generated from operating activities and it amounted to approximately RMB83.6 million and the increase of accounts receivable which amounted to approximately RMB20.3 million, the turnover days of accounts receivable increased from 52 days in 2008 to 57 days in 2009.

As at 31 December 2009, the total current liabilities of the Group amounted to approximately RMB116.7 million (2008: approximately RMB112.7 million). The increase was mainly due to the increase of the unsettled promotion expenses of approximately RMB1.7 million and the increase of the accrual bonus and salaries which amounted to approximately RMB2.6 million.

Cash Flow

Net cash inflow from operating activities of the Group for the year ended 31 December 2009 was approximately RMB83.6 million, resulted from cash generated from operations of approximately RMB88.6 million and tax paid of approximately RMB5.0 million.

Net cash outflow from investing activities of the Group for the year ended 31 December 2009 was approximately RMB73.6 million, resulted from cash outflow of purchasing of investments at fair value through profit or loss and short term deposits amounted to approximately RMB88.0 million and RMB23.0 million respectively, and partly offset by the cash inflow of proceeds from sale of investments at fair value through profit or loss amounted to approximately RMB47.5 million.

Net cash inflow from financing activities of the Group for the year ended 31 December 2009 was approximately RMB8.4 million which was due to the exercise of share options.

Contingent Liabilities

As at 31 December 2009, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2009, the Group employed 433 employees (2008: 333 employees). The Group determines the remuneration of its employees based on various factors such as responsibility, qualifications and years of experience. Total employee costs for the year ended 31 December 2009, including directors' emoluments, amounted to approximately RMB49.8 million, representing an increase of approximately 14% as compared with 2008. (2008: approximately RMB43.6 million).

Significant Event

As at 31 December 2009, the Group had no significant event.

Use of proceeds

The application of the proceeds from the initial public offering does not materially change from the possible allocation outlined in the prospectus of the Company dated 12, June 2008.

Business Outlook

The deployment of 3G has greatly facilitated the growth of mobile internet. Based on the 25th China Internet development status report published by CNNIC in January 2010, the number of mobile internet subscribers in the PRC has reached approximately 230 million. In addition, based on iResearch China Digital Music Report 2009-2010, the growth of mobile internet will be from 34-48% annually and reached RMB14.8 billion in 2012. It further stated that by riding on this exponential growth and the deployment of 3G, wireless music will be one of the most sought after applications on the mobile internet. Wireless music is forecasted to grow at a double digit rate to reach RMB39.3 billion in 2011. This indicates an enormous growth opportunity. The recent announcement of China to accelerate Triple Play – the plan to merge the telecommunications network, TV and radio network and the Internet in the near future would indeed boost the development of the information and culture, where music represents a great component in this context. All these have created a very favorable macroeconomic environment for the Group.

During 2009, we have consolidated all the music and related business into one single business name as "Music Cloud". The mission of the Music Cloud is to provide music services everywhere across different devices. It is based on cloud computing technology to store all the music and users' preference in a centralized database. Music Cloud is a long term strategy of the Group, it aims to provide a centralized virtual space for users to store their music and can be retrieved or listened to through any devices, anywhere, and anytime.

Music Cloud will not only provide basic streaming/download/search functions but also will provide advanced services like smart radio, Hi-fi (high fidelity) music downloads, multi devices usage and music community, etc. Music Cloud will be able to reach consumers directly, so as to achieve the Group's strategic objectives of providing services to end-users, owning desktops and end users.

In short to medium term and in order to continuously increase market share on mobile internet, A8 Box will extend its reach to becoming a "platform" to provide users an integrated entertainment services focusing on music but also providing interactive entertainments, information, wallpapers/ pictures, and news/weather, etc.

It is now very clear that our long term strategy is a B2C model to own user directly. Meanwhile, building on our existing strong sales channels, we will be offering diversified products but focus on music and music related services. We believe these strategies provide a very solid foundation for our future growth and ensure the Group to achieve a higher than average industry growth rate.

By May 2010, A8 will celebrate its 10th year anniversary. I would like to sincerely thank all of our employees for their hard and dedicated work in the past 10 years, all of our investors and shareholders to continuously support our company. We are striving to extract the best value of the Group in the next 10 years and becoming the biggest digital music services provider in China.

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 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. 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 year ended 31 December 2009, the Company has complied with the code provisions as set out in the CG Code, except for the deviations from code provisions A.2.1 and Rules 3.10(1) and 3.21 of the Listing Rules.

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 ("Mr. Liu") has diversified 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 year.

During the year ended 31 December 2009, the Board at all time met the relevant requirements of the Listing Rules relating to the appointment of at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

However, the requirement of appointment of at least three independent non-executive directors, was not met upon the resignation of Mr. Song Yonghua on 28 September 2009 when the number of independent non-executive directors fell below the minimum number required under Rule 3.10(1) of the Listing Rules and the number of members of the Audit Committee of the Company also fell below the minimum number required under Rules 3.21 of the Listing Rules. The Company re-complied with Rules 3.10(1) and 3.21 of the Listing Rules when the Board appointed Mr. Zeng Liqing as the independent non-executive Director and the member of the audit committee and the remuneration committee on 23 October 2009.

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 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 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 2009.

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 2009.

DIVIDENDS

The Board has recommended payment of a final dividend of HKD0.05 per share for the year ended 31 December 2009 to shareholders out of the Company's share premium account. The proposed dividend payment is subject to the approval of shareholders of the Company at the forthcoming annual general meeting. The final dividend will be paid on or before 31 May to shareholders whose names appear on the register of members of the company on 20 May 2010.

CLOSURE OF REGISTER OR MEMBERS

For the purpose of ascertaining the entitlement to the final dividend, the register of members of the Company will be closed from Tuesday, 18 May 2010 to Thursday, 20 May 2010, 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 2010, 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, 17 May 2010.

A8 Digital Music Holdings Limited
Liu Xiaosong
Chairman

Hong Kong, 24 March 2010

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. Zeng Li Qing.