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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)

**CONNECTED TRANSACTION
IN RELATION TO
THE ENTERING INTO THE INVESTMENT AGREEMENT
WITH A CONNECTED PERSON OF THE COMPANY**

The Board is pleased to announce that Yunhai Qingtian, a wholly-owned subsidiary of the Company, entered into the Investment Agreement on 31 January 2011 with, among others, Mr. Lin Yizhong pursuant to which Yunhai Qingtian shall subscribe for 20% of the equity interests of the enlarged registered capital of Ningmenghai, a company incorporated in the PRC, for a consideration of RMB 5,300,000 (equivalent to approximately HK\$ 6,227,500). Since Mr. Lin Yizhong served as an executive Director from 9 November 2007 to 9 November 2010 and owned 90% of the equity interests in Ningmenghai immediately prior to the date of the Investment Agreement, Ningmenghai is an associate of Mr. Lin Yizhong and is regarded as a connected person of the Company. Therefore the Transaction constitutes a connected transaction for the Company. As the applicable percentage ratios for the Company with respect to the Transaction exceed 0.1% but are less than 5%, the Transaction is only subject to the announcement and reporting requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

On 31 January 2011, Yunhai Qingtian, a wholly-owned subsidiary of the Company entered into the Investment Agreement with, among others, Mr. Lin Yizhong, a former Director, pursuant to which Yunhai Qingtian shall subscribe for 20% of the equity interests of the enlarged registered capital of Ningmenghai for a consideration of RMB 5,300,000 (equivalent to approximately HK\$ 6,227,500).

THE INVESTMENT AGREEMENT

The principal terms of the Investment Agreement are set out below:-

Date:

31 January 2011

Parties:

Party A: Yunhai Qingtian

Party B: Mr. Liu Tao

Party C: Mr. Lin Yizhong

Party D: Mr. Wang Wei

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) Mr. Liu Tao is a third party independent of the Company and its connected persons; (ii) Mr. Wang Wei is a former employee of the Company who is also a third party independent of the Company and its connected persons. As at the date of this announcement, Yunhai Qingtian is a wholly-owned subsidiary of the Company and Mr. Lin Yizhong is a connected person of the Company by virtue of his directorship with the Company from 9 November 2007 to 9 November 2010.

Subject Company:

Shenzhen Ningmenghai Technology Co., Ltd. (深圳市檸檬海科技有限公司), a company incorporated under the laws of the PRC. Immediately prior to the completion of the Transaction, the equity interest of Ningmenghai is owned as to 90% by Mr. Lin Yizhong and as to 10% by Mr. Wang Wei and the registered capital is RMB1,000,000 (equivalent to approximately HK\$1,175,000).

Assets to be acquired:

20% of the enlarged registered capital of Ningmenghai.

Consideration:

RMB 5,300,000 (equivalent to approximately HK\$ 6,227,500), which was determined after arm's length negotiation between Yunhai Qingtian, Ningmenghai and the Original Shareholders and with reference to (i) the valuation of the comparable industries of mobile internet and the anticipated operating results of Ningmenghai; and (ii) the independent valuation of Ningmenghai of RMB33,900,000 (equivalent to approximately HK\$39,832,500) as at 14 January 2011 performed by the Independent Valuer. The Consideration will be payable by Yunhai Qingtian in cash by one lump sum within 14 business days from the date of execution of the Investment Agreement. The Consideration will be payable by utilizing the Company's internal resources.

Other Material Terms:

(i) Contributions to registered capital

Yunhai Qingtian shall invest RMB 5,300,000 (equivalent to approximately HK\$ 6,227,500) into Ningmenghai and RMB 285,714 (equivalent to approximately HK\$ 335,714) of which will be applied as contribution to the registered capital of Ningmenghai, and the balance of RMB 5,014,286 (equivalent to approximately HK\$5,891,786) will be credited to the capital reserve account of Ningmenghai. Mr. Liu Tao will invest RMB 3,150,000 (equivalent to approximately HK\$ 3,701,250) into Ningmenghai and RMB 142,857 (equivalent to approximately HK\$ 167,857) will be applied as contribution to the registered capital of Ningmenghai, and the balance of RMB 3,007,143 (equivalent to approximately HK\$3,533,393) will be credited to the capital reserve account of Ningmenghai.

The changes in the shareholding structure of Ningmenghai immediately before and after the Transactions are as follows:

Name	Shareholding percentage before the Transactions	Shareholding percentage after the Transactions
Yunhai Qingtian	-	20%
Liu Tao	-	10%
Lin Yizhong	90%	63%
Wang Wei	10%	7%
Total	100%	100%

Upon completion of the Transactions, the registered capital of Ningmenghai will increase from RMB1,000,000 (equivalent to approximately HK\$1,175,000) to RMB1,428,571 (equivalent to approximately HK\$1,678,571).

(ii) Right to appoint director

Pursuant to the terms of the Investment Agreement, the board of Ningmenghai will consist of five directors and Yunhai Qingtian will have the right to appoint one director to the board of Ningmenghai .

(iii) Right of first refusal and tag along right

Should Ningmenghai increase its registered share capital or registered investment, Yunhai Qingtian and Mr. Liu Tao shall have the first right of refusal to acquire the equity interests in Ningmenghai on a pro-rata basis in accordance with their then respective shareholdings in Ningmenghai.

In the event that any of the Original Shareholders wishes to transfer its equity interests in Ningmenghai to a third party, Yunhai Qingtian and Mr. Liu Tao shall have the right to require the Original Shareholders to procure the third party transferee to acquire their respective

equity interests in Ningmenghai based on their then percentage equity interests in Ningmenghai and on the same terms and at the same price as the third party transferee proposes to acquire the equity interests in Ningmenghai from the Original Shareholder concerned.

(iv) Restrictions on new investors

Unless with the prior agreement of Yunhai Qingtian and Mr. Liu Tao, if any new investor(s) of Ningmenghai acquires the equity interest of Ningmenghai at a price (the “**New Price**”) which is lower than that payable by Yunhai Qingtian and Mr. Liu Tao as per the Investment Agreement, Ningmenghai shall return the difference to Yunhai Qingtian and Mr. Liu Tao or adjust their respective percentage equity interests in Ningmenghai in accordance with the New Price.

In addition, Yunhai Qingtian and Mr. Liu Tao will be entitled to the same rights and benefits as any new investor(s) unless Yunhai Qingtian and Mr. Liu Tao agree otherwise.

(v) Termination

The Investment Agreement shall be terminated if any of the following events happens:-

- (a) the listing of the equity interests of Ningmenghai or the acquisition of the entire equity interests of Ningmenhai;
- (b) by mutual agreement of all the shareholders of Ningmenhai;
- (c) the failure to remedy a breach by a defaulting party within 30 days of the breach or cumulative breach of two times or more by a defaulting party; in such case, the non-defaulting parties shall have the right to terminate the Investment Agreement unilaterally; or
- (d) the occurrence of an event of force majeure, which results in the inability of the parties to perform the Investment Agreement.

FINANCIAL INFORMATION OF NINGMENGHAI

Ningmenghai is a company recently incorporated on 26 November 2010, therefore no accounts has been prepared as at the date of this announcement. Based on the unaudited management accounts of Ningmenghai for the period from its date of incorporation up to 31 December 2010, both of the net loss before and after taxation are RMB 214,240.90 (equivalent to approximately HK\$ 251,733.06), and the net asset value of Ningmenghai as at 31 December 2010 is RMB 785,759.10 (equivalent to approximately HK\$923,266.94).

INFORMATION ON THE COMPANY, YUNHAI QINGTIAN AND NINGMENGHAI

The Company principally engages in the business of digital music. It sources its music content from its own interactive platform, www.a8.com, as well as from other international and domestic record labels, and sells the music content to mobile phone subscribers in the

PRC.

Yunhai Qingtian is a limited liability company incorporated in the PRC and an indirect wholly-owned subsidiary of the Company. The principal business of Yunhai Qingtian is the provision of information services under the value-added telecommunication business in the PRC.

Ningmenghai is a limited liability company incorporated in the PRC on 26 November 2010. Ningmenghai operates a friend-making website that targets school students and white-collar workers who were born in the 1980s and 1990s, and provides comprehensive wireless internet services that cover information, music, friend-making and reading to users through the cooperation with its partners, with an aim to becoming a diversified, unique and comprehensive online friend-making platform.

REASONS FOR THE TRANSACTION

Through its operation as an internet social network service provider, Ningmenghai attracts, accumulates and retains users by collaborating with other content providers in areas such as music, reading materials, games, and videos so as to promote users' participation in the network, which in turn enhances its revenue. The Transactions will provide the Company with an opportunity to enter into the internet social networking industry, and to expand the Company's businesses by cooperating with internet social network service providers in certain areas in the future, including the provision of original music contents and access to paid services. The management of Ningmenghai has years of working experience in the wireless internet industry and in established enterprises, which is another factor that drives the Company to enter into the Transaction.

The Investment Agreement was entered into in the ordinary and usual course of business of the Company. The terms of the Investment Agreement are on normal commercial terms and have been arrived at after arm's length negotiation between the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of the Investment Agreement are fair and reasonable and that the entering into of the Investment Agreement is in the interests of the Company and its Shareholders as a whole. All the Directors have confirmed that none of them has any material interest in the Transaction and therefore no Director is required to abstain from voting on the board resolutions to approve the Transaction.

IMPLICATIONS UNDER THE LISTING RULES

Since Mr. Lin Yizhong served as an executive Director from 9 November 2007 to 9 November 2010 and owned 90% of the equity interests in Ningmenghai immediately prior to the date of the Investment Agreement, Ningmenghai is an associate of Mr. Lin Yizhong and is regarded as a connected person of the Company. Therefore, the Transaction constitutes a connected transaction for the Company. As the applicable percentage ratios for the Company

with respect to the Transaction exceed 0.1% but are less than 5%, the Transaction is only subject to the announcement and reporting requirements but is exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Details of the Transaction are required to be disclosed by way of this announcement and will be included in the next published annual report and accounts of the Company in accordance with Rule 14A.45 of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“Board”	the board of the directors of the Company
“Connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	RMB5,300,000 (equivalent to approximately HK\$ 6,227,500)
“Company”	A8 Digital Music Holdings Limited (A8 電媒音樂控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 800)
“Directors”	the directors of the Company
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Independent Valuer”	Asset Appraisal Limited, an independent property valuer appointed by the Company to provide a valuation on Ningmenghai
“Investment Agreement”	the equity investment agreement dated 31 January 2011 entered into between Yunhai Qingtian, Mr. Liu Tao, Mr. Lin Yizhong and Mr. Wang Wei, in relation to the capital contributions by Yunhai Qingtian and Mr. Liu Tao into Ningmenghai
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange

“Ningmenghai”	深圳市檸檬海科技有限公司(Shenzhen Ningmenghai Technology Co., Ltd.), a limited liability company established in the PRC on 26 November 2010, which was 90%-owned by Mr. Lin Yizhong immediately prior to the date of the Investment Agreement
“Original Shareholders”	the shareholders of Ningmenghai prior to the completion of the Transactions, namely, Mr. Lin Yizhong and Mr. Wang Wei
“percentage ratios”	has the meaning ascribed to it in Chapter 14 of the Listing Rules
“PRC”	the People’s Republic of China, and, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transaction”	the entering into of the Investment Agreement and the transaction contemplated thereunder including but not limited to the investments to be made by each of Yunhai Qingtian and Mr.Liu Tao.
“Yunhai Qingtian”	深圳市雲海情天文化傳播有限公司(Shenzhen Yunhai Qingtian Cultural Broadcasting Co., Ltd.), a limited liability company established in the PRC and a wholly-owned subsidiary of the Company
“%”	percent

In this announcement, amounts denominated in RMB have been converted into HK\$ at the rate of RMB1 = HK\$1.175 for the purpose of illustration.

By Order of the Board
A8 Digital Music Holdings Limited
Liu Xiaosong
Chairman and Executive Director

Hong Kong, 31 January 2011

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

(1) executive Director namely Mr. Liu Xiaosong;

(2) non-executive Directors namely Mr. Li Wei and Ms. Ho Yip, Betty; and

(3) independent non- executive Directors namely Mr. Chan Yiu Kwong, Mr. Hui, Harry Chi and Mr. Zeng Liqing.