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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in A8 Digital Music Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer, registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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)

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
THE SECOND DUOMI MUSIC SHARE SUBSCRIPTION**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



Terms used in this cover shall have the same meaning as defined in this circular.

A letter from the Board is set out from pages 7 to 31 of this circular. A letter from the Independent Board Committee is set out on page 32 of this circular. A letter from Guangdong Securities, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out from pages 33 to 46 of this circular.

A notice convening the EGM to be held at 10:30 a.m. on 11 December 2012 at Suites 903-905, 9/F Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong is set out from pages 53 to 54 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

20 November 2012

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DEFINITIONS

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

“Accumulated Users”	the total number of Users accumulated since the date of first launch of Duomi music service (i.e. since January 2009)
“Adjusted Final Installment”	the adjusted amount to the Final Installment in the event that the Actual Fully-Diluted Post-Money Valuation is 70% or more but less than 90% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000) as stipulated in the section headed “Valuation adjustment”
“Announcements”	the announcements dated 19 September 2011, 21 December 2011 and 23 April 2012 in relation to, among other things, the First Duomi Music Share Subscription and the announcement of the Company dated 17 September 2012 in relation to the Second Duomi Music Share Subscription
“Associate”	has the meaning ascribed to the term under the Listing Rules
“Board”	the board of Directors
“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)
“Completion”	the subscription and allotment and issuance of the Duomi Music Preferred Shares
“Completion Date”	The third business day after the fulfillment or waiver of the conditions precedent to the Second Duomi Music Share Subscription Agreement
“Connected Person”	has the meaning ascribed to the term under the Listing Rules
“Director(s)”	the director(s) of the Company

DEFINITIONS

“Domestic Companies”	Rainbow Online, Beijing Haoyinwei Internet Technology Co., Ltd., Beijing Mianzhi Internet Technology Co., Ltd., Shenzhen Qingsheng Tongyin Technology Co., Ltd., Shenzhen Huiyin Chuangshi Technology Co., Ltd. and Shenzhen Kaixinting Information and Technology Co., Ltd.
“Duomi Group”	Duomi Music and its subsidiaries
“Duomi Music”	Duomi Music Holding Ltd, a company incorporated in the Cayman Islands on 20 December 2011 which is authorised to issue a maximum of 500,000,000 shares with par value of US\$0.0001 each
“Duomi Music Preferred Share(s)”	the convertible, redeemable and participating preferred shares of Duomi Music with par value of US\$0.0001 each
“Duomi Music Share(s)”	ordinary share(s) of US\$0.0001 each in the capital of Duomi Music
“EGM”	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve by the Independent Shareholders the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder
“ESOP”	the employee share option plan adopted by Duomi Music
“Existing Duomi Music Shareholders”	Bile Investments Limited, Beyond Faith Limited, Hero Victory Investments Limited, Fortune Light and Phoenix Success
“Final Installment”	the remaining 30% of the aggregate subscription price to be paid by the Subscribers
“First Duomi Music Share Subscription”	the subscription of approximately 42.69% of the share capital of Duomi Music by Phoenix Success which was completed on 23 April 2012
“First Installment”	the 70% of the aggregate subscription price to be paid by the Subscribers on the Completion Date
“Fortune Light”	Fortune Light Investments Limited, a company incorporated in the British Virgin Islands on 12 December 2011 and wholly owned by Mr. Liu

DEFINITIONS

“Founder(s)”	Mr. Shi Jimmy Jian-Ping, Mr. Feng Yousheng and Mr. Liu
“Group”	the Company and its subsidiaries
“Guangdong Securities” or “Independent Financial Adviser”	Guangdong Securities Limited, a corporation licensed to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the Securities and Futures Ordinance and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder
“Hina”	Hina Group Fund L.P., a partnership established and validly existing under the laws of the Cayman Islands
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huayi”	Huayi Brothers International Investment Ltd., a company duly established and validly existing under the laws of the British Virgin Islands and a subsidiary of Huayi Brothers Media Corporation (華誼兄弟傳媒股份有限公司, the shares of which are listed on the Shenzhen Stock Exchange (stock code: 300027.SZ))
“Independent Board Committee”	an independent board committee of the Company comprising all the independent non-executive Directors to advise the Independent Shareholders on the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Mr. Liu and his Associates
“Independent Third Parties”	third parties and their ultimate beneficial owner(s) which are independent of the Company and its connected persons
“Latest Practicable Date”	14 November 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Monthly Active Users”	the total number of Users who connects to Duomi back-end service at least once via Duomi Mobile Client in a one-calendar-month duration
“Mr. Liu”	Mr. Liu Xiaosong, an executive Director and a Controlling Shareholder
“percentage ratios”	has the meaning ascribed to the term under Chapter 14 of the Listing Rules
“Phoenix Success”	Phoenix Success Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“PRC”	the People’s Republic of China, and, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“pre-money valuation”	valuation of an entity without taking into account any amount of proposed investment
“post-money valuation”	valuation of an entity having taking into account the amount of proposed investment (i.e. the sum of its pre-money valuation and the amount of proposed investment)
“Qualified IPO”	an IPO in the United States of America pursuant to an effective registration under the Securities Act or on a reputable stock exchange in Tokyo, London, Hong Kong, Singapore or such reputable stock exchange as may be determined by the Company, with the market capitalisation of at least of US\$107,600,000 (equivalent to approximately HK\$839,280,000) and gross proceeds to Duomi Music of not less than 20% of such market capitalisation

DEFINITIONS

“Rainbow Online”	Beijing Rainbow Online Technology Development Co., Ltd. (北京彩雲在線技術開發有限公司), a limited liability company incorporated under the laws of the PRC. As at the Latest Practicable Date, the subsidiaries of Rainbow Online include Beijing Haoyinwei Internet Technology Co., Ltd. (北京好音味網絡科技有限公司), Beijing Mianzhi Internet Technology Co., Ltd. (北京勉致網絡科技有限公司), Shenzhen Qingsheng Tongyin Technology Co., Ltd. (深圳市磬笙同音科技有限公司), Shenzhen Huiyin Chuangshi Technology Co., Ltd. (深圳市匯音創世科技有限公司) and Shenzhen Kaixinting Information and Technology Co., Ltd. (深圳市開心聽信息科技有限公司)
“RMB”	Renminbi, the lawful currency of the PRC the PRC or its local branch
“Second Duomi Music Share Subscription”	the subscription of 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full) by Phoenix Success and the subscription of 6,933,146 and 2,311,049 Duomi Music Preferred Shares by Huayi and Hina respectively
“Second Duomi Music Share Subscription Agreement”	the subscription agreement entered into by the Duomi Group, the Founders, the Existing Duomi Music Shareholders and the Subscribers on 17 September 2012 in relation to the Second Duomi Music Share Subscription
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Shareholders Agreement”	the shareholders agreement entered into by the parties to the Second Duomi Music Share Subscription Agreement on 17 September 2012
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber(s)”	each/all of Phoenix Success, Huayi and Hina

DEFINITIONS

“Substantial Shareholder”	has the meaning ascribed to the term under the Listing Rules
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Repurchases issued by the Securities and Futures Commission of Hong Kong
“User”	a person who has installed “Duomi Mobile Client” (多米移動客戶端) and has used Duomi Mobile Client to connect to Duomi back-end services at least once
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	Percent

In this circular, amounts denominated in US\$ have been converted into HK\$ at the rates of US\$1 = HK\$7.8; and amounts denominated in RMB have been converted into HK\$ at the rate of RMB0.82 = HK\$1 for the purpose of illustration.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. Liu Xiaosong

Mr. Lu Bin

Independent non-executive Directors:

Mr. Chan Yiu Kwong

Mr. Zeng Liqing

Ms. Wu Shihong

Registered office:

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The People's Republic of China

Principal place of business in

Hong Kong:

Suites 06-12

33/F., Shui On Centre

6-8 Harbour Road

Wanchai, Hong Kong

20 November 2012

To the Shareholders,

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
THE DUOMI MUSIC SHARE SUBSCRIPTION**

INTRODUCTION

Reference is made to the Announcements.

The purpose of this circular is to provide you with, among other things, (a) further details of the Second Duomi Music Share Subscription; (b) the letter from the Independent Board Committee; (c) the letter from Guangdong Securities to the Independent Board Committee and the Independent Shareholders; and (d) a notice convening the EGM.

LETTER FROM THE BOARD

Further to the First Duomi Music Share Subscription, the Board announced that on 17 September 2012, the Duomi Group, the Founders, the Existing Duomi Music Shareholders and the Subscribers entered into the Second Duomi Music Share Subscription Agreement, pursuant to which (i) Phoenix Success conditionally agreed to subscribe for 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full) at the total consideration of US\$6 million (equivalent to approximately HK\$46.8 million); and (ii) Huayi and Hina conditionally agreed to subscribe for 6,933,146 and 2,311,049 Duomi Music Preferred Shares, respectively, at the consideration of US\$3 million (equivalent to approximately HK\$23.4 million) and US\$1 million (equivalent to approximately HK\$7.8 million) respectively.

As at the Latest Practicable Date, Phoenix Success holds a total of 36,393,360 Duomi Music Shares (representing approximately 42.69% of the share capital of Duomi Music as at the Latest Practicable Date). Upon conversion of the Duomi Music Preferred Shares in full, Phoenix Success will hold a total of 50,247,228 Duomi Music Shares (representing (i) approximately 46.38% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and no exercise of the options under the existing ESOP; and (ii) approximately 40.44% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full). Accordingly, Duomi Music will remain as an associated company of the Company.

THE SECOND DUOMI MUSIC SHARE SUBSCRIPTION AGREEMENT

The principal terms of the Second Duomi Music Share Subscription Agreement are set out below:–

Date:

17 September 2012

Parties:

The Duomi Group:	Duomi Music Boundless Melody Hong Kong Limited Beijing Huanwu Yuedong Internet Technology Co., Ltd. Rainbow Online
The Founders:	Mr. Shi Jimmy Jian-Ping Mr. Feng Yousheng Mr. Liu

LETTER FROM THE BOARD

The Existing Duomi Music Shareholders:	Bile Investments Limited Beyond Faith Limited Hero Victory Investments Limited Fortune Light Phoenix Success
The Subscribers:	Huayi Hina Phoenix Success

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Founders (other than Mr. Liu), the Existing Duomi Music Shareholders (other than Fortune Light and Phoenix Success), the Subscribers (other than Phoenix Success), their respective shareholders and ultimate beneficial owner(s) (where applicable), and their respective associates are Independent Third Parties.

Shareholding interest to be subscribed by the Subscribers:

Phoenix Success conditionally agreed to subscribe for 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full).

Huayi and Hina conditionally agreed to subscribe for 6,933,146 and 2,311,049 Duomi Music Preferred Shares respectively.

Conditions precedent:

The obligations of each Subscriber to subscribe for the Duomi Music Preferred Shares and pay consideration are subject to the fulfillment or waiver in writing by such Subscribers of the following conditions on or prior to the Completion Date:

- (a) all necessary consents from, waiver of or filings with any authority in any such jurisdictions required to be obtained or made, or with any other person in relation to the transactions contemplated under the Second Duomi Music Share Subscription Agreement shall have been obtained or made;
- (b) the shareholders meeting and the board of directors of each member of the Duomi Group shall have approved the transactions contemplated under the Second Duomi Music Share Subscription Agreement; including without limitation approving the issuance of the Duomi Music Preferred Shares and the observer designated by the Subscribers to the board of directors of Duomi Music upon Completion;
- (c) any Subscriber shall have obtained any and all approval from their respective internal authority with respect to the transactions contemplated under the Second Duomi Music Share Subscription Agreement and other transaction documents, including without limitation the duly adopted shareholders resolution of the Company;

LETTER FROM THE BOARD

- (d) the representations and warranties made by the Duomi Group, the Founders and the Existing Duomi Music Shareholders in the Second Duomi Music Share Subscription Agreement remain accurate, true, complete and not misleading in all major and material respects at the Completion Date;
- (e) Duomi Music, the Founders and the Existing Duomi Music Shareholders shall have performed in all material respects all of the covenants required to be performed or caused to be performed by it on or prior to the Completion under the Second Duomi Music Share Subscription Agreement and the transaction documents;
- (f) none of the Duomi Group, the Founders and the Existing Duomi Music Shareholders has received, or to the knowledge of any of them, will receive any notice of any injunction or other order, directive or notice restraining or prohibiting the consummation of the transactions contemplated by the Second Duomi Music Share Subscription Agreement and other transaction documents and there shall be no action seeking to restrain or prohibit the consummation thereof, or seeking damages in connection therewith, which is pending or any such injunction, other order or action which is threatened;
- (g) Unless otherwise disclosed to the Subscribers, there shall have been no material adverse change in the business, operations, assets, liabilities, financial condition or prospects of the Duomi Group since the date of the Second Duomi Music Share Subscription Agreement;
- (h) Duomi Music shall have adopted and filed the amended and restated memorandum and articles of association with the Registry of Companies in the Cayman Islands;
- (i) Duomi Music shall deliver to the Subscribers opinions, in connection with the transactions contemplated by or referred to in the Second Duomi Music Share Subscription Agreement, from a qualified legal counsel of Cayman Islands and a qualified legal counsel of the PRC, dated as at the Completion Date, in the form and substance reasonably satisfactory to the Subscribers; and
- (j) the following agreements and documents shall have been duly executed by the Duomi Group, the Founders or the key management (as defined below) of the Duomi Group and delivered to the Subscribers:
 - (i) the Shareholders Agreement;
 - (ii) a letter of commitment on non-competition from each of the key management of the Duomi Group in such form and substance reasonably satisfactory to the Subscribers; and

LETTER FROM THE BOARD

- (iii) a letter of undertaking on non-competition from Mr. Liu, Phoenix Success, the Company and Shenzhen Qingsong Investment Management Partnership Enterprise (Limited Partnership)(76% of its registered share capital is held by Mr. Liu) in such form and substance reasonably satisfactory to the Subscribers; and
- (iv) a compliance certificate issued by the Founders, each member of the Duomi Group and the Existing Duomi Music Shareholders, certifying that the conditions specified in the above section (a), (b), (d), (f) and (h) have been fulfilled by the Completion Date; and attaching thereto a true and complete copy of business licenses of the PRC subsidiaries of the Duomi Group with then-current and valid annual inspection stamps of the competent authorities.

where key management of the Duomi Group is:-

Name	Position
SHI Jimmy Jian-Ping (石建平)	President
FENG Yousheng (奉佑生)	Senior Vice President
LI Yonghua (李永華)	Vice President
LU Yongyi (陸永毅)	Vice President

Each of the Subscribers shall have the right to waive the conditions precedent above (save for condition (c) which cannot be waived). As at the Latest Practicable Date, conditions (a), (b), (d), (e), (f), (g), (j)(i), (j)(ii) and (j)(iii) above have been fulfilled, and none of the Subscribers has intention to waive any condition.

The obligations of Duomi Music to issue and allot the Duomi Music Preferred Shares to each Subscriber are subject to the fulfillment or waiver in writing by Duomi Music of the following conditions on or prior to the Completion Date:

- (k) each Subscriber shall have obtained any and all approval from its internal authority with respect to the transactions contemplated by the Second Duomi Music Share Subscription Agreement and other transaction documents, including without limitation the duly adopted shareholders resolution of the Company;
- (l) the representations and warranties of such Subscriber remain true and not misleading in all major and material respects at the Completion Date;
- (m) the Subscriber shall have not received, or to the knowledge of such Subscriber, any notice of any injunction or other order, directive or notice restraining or prohibiting the consummation of the transactions contemplated by the Second Duomi Music Share Subscription Agreement and other transaction documents and there shall be no action seeking to restrain or prohibit the consummation thereof, or seeking damages in connection therewith, which is pending or any such injunction, other order or action which is threatened; and

LETTER FROM THE BOARD

- (n) the Shareholders Agreement shall have been executed and delivered by such Subscriber to Duomi Music.

Duomi Music shall have the right to waive the conditions precedent above (save for condition (k) which cannot be waived). As at the Latest Practicable Date, conditions (l), (m) and (n) above have been fulfilled.

Completion:

Completion shall take place on the Completion Date.

As at the Latest Practicable Date, Phoenix Success holds a total of 36,393,360 Duomi Music Shares (representing approximately 42.69% of the share capital of Duomi Music as at the Latest Practicable Date). Upon conversion of the Duomi Music Preferred Shares in full, Phoenix Success will hold a total of 50,247,228 Duomi Music Shares (representing (i) approximately 46.38% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and no exercise of the options under the existing ESOP; and (ii) approximately 40.44% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full). Accordingly, Duomi Music will remain as an associated company of the Company.

Non-competition undertaking:

Under the Second Duomi Music Share Subscription Agreement,

- (a) each of the key management of the Duomi Group will undertake and commit that,
 - (i) Non-competition: during the Commitment Period, they shall not engage in any Competitive Business;
 - (ii) No Solicitation: during the Commitment Period, they shall not directly or indirectly, either on behalf of himself/herself or any other person, in any capacity (including as employer, employee, trustor, agent, partnership, partner, shareholder or any other equity holder, independent contractor, licensor, licensee, franchiser, franchisee, dealer, consultant, supplier or trustee or to use or through any company, partner, trust, non-corporate organization or in any other form) to engage in such activities as follows:
 - (1) Lobby or solicit (or cause or assist to lobby or solicit) any customer or potential customer of the Duomi Group in any business which is relevant to the Competitive Business;
 - (2) Accept (or cause or assist to accept) any business which is relevant to the Competitive Business as from any customer or potential customer of the Duomi Group; or

LETTER FROM THE BOARD

- (3) Provide (or cause or assist to provide) to any customer or potential customer of the Duomi Group any service which is relevant to the Competitive Business.
- (iii) No Hiring: during the Commitment Period, they shall not directly or indirectly, either on behalf of himself/herself or any other person, in any capacity (including as employer, employee, principal, agent, partnership, partner, shareholder or any other equity holder, independent contractor, licensor, licensee, franchiser, franchisee, dealer, consultant, supplier or trustee or to use or through any company, partner, trust, non-corporate organization or in any other form) to engage in such activities as follows:
- (1) Employ any person who is employed by the Duomi Group, or provide employment opportunity thereto, or solicit the said person to accept employment or hiring or to sever employment from the Duomi Group in any other form (whether the said employee's severance of the Duomi Group's employment violates the terms and conditions of the employment contract or relevant clauses or not); or
 - (2) Cause or assist any person in employing any such employee, or provide employment opportunity thereto, or solicit the said person to accept any other employment or hiring or to sever employment from the Duomi Group in any other form.
- (b) Mr. Liu will undertake and commit that: during the Commitment Period, he will not, directly or indirectly, make any Restricted Investment. Furthermore, except for that Mr. Liu will procure Phoenix Success, the Company and Shenzhen Qingsong Investment Management Partnership Enterprise (Limited Partnership) to disclose in writing to Duomi Music and Huayi any and all the Restricted Investments made by them during the Commitment Period, he will procure all of his affiliates to comply with the commitments and restrictions hereunder.
- (c) Phoenix Success, the Company and Shenzhen Qingsong Investment Management Partnership Enterprise (Limited Partnership), as the affiliates of Mr. Liu, will undertake and commit that: they will issue a written notice to Duomi Music and Huayi before they make any Restricted Investment during the Commitment Period, if Duomi Music and/or Huayi have/has interest in investing together (the "Co-investment"), they will use their best efforts to coordinate to procure the Co-investment.

For avoidance of doubt, Phoenix Success, the Company and Shenzhen Qingsong Investment Management Partnership Enterprise (Limited Partnership) are neither required to obtain consent from Duomi Music and Huayi nor prohibited in carrying out the Restricted Investment.

LETTER FROM THE BOARD

Assuming Phoenix Success, the Company and Shenzhen Qingsong haven't issued a written notice to Duomi Music and Huayi before making the Restricted Investment, they will break the non-competition undertaking (the "Breach"). Therefore they may be liable to compensate Duomi Music and Huayi for losses consequently suffered (i.e. the loss of potential investment return).

In addition, such Breach of Phoenix Success, the Company may result in loss of creditability for the Company and the reputation of the Company may further be affected negatively in the market, which may bring pressure to cooperation with other third parties as well as the long term development of the Company.

For the purpose of the non-competition undertaking:

"Commitment Period":

for the key management of the Duomi Group, means the period of one year starting from the date he/she offers to terminate the employment contract with the Duomi Group;

for Mr. Liu, Phoenix Success, the Company and its subsidiaries and Shenzhen Qingsong Investment Management Partnership Enterprise (Limited Partnership), means during the period between the date of undertaking and one (1) year after the date on which Mr. Liu ceases to own any equity securities of any member of the Duomi Group;

"Restricted Investment" means any equity investment in the Competitive Business, in which (i) the pre-money valuation of the entity to be invested equals or more than RMB30,000,000 (equivalent to approximately HK\$36,585,000); (ii) any one of Mr. Liu, Phoenix Success, the Company and Shenzhen Qingsong Investment Management Partnership Enterprise (Limited Partnership) will hold of record or beneficially 20% or more of the equity interest in the entity upon the completion of such investment; (iii) the entity to be invested is an affiliate of Kugou.com, kuwo.cn or xiami.com (who engage in digital music services through providing PC and mobile music softwares, are the direct competitors of Duomi Music); or (iv) the aggregate amount invested by any one of Mr. Liu, Phoenix Success, the Company and Shenzhen Qingsong Investment Management Partnership Enterprise (Limited Partnership) here in one single entity exceeds RMB10,000,000 (equivalent to approximately HK\$12,195,000).

"Competitive Business" means business entities which engage in, from time to time, providing online and connected digital music services directly to consumers.

Consideration:

The consideration to be paid by Phoenix Success for the subscription of 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full) is US\$6 million (equivalent to approximately HK\$46.8 million), which was determined after arm's length negotiation between Phoenix Success and Duomi Music with reference to the post-money valuation of Duomi Music upon Completion of

LETTER FROM THE BOARD

approximately US\$53,800,000 (equivalent to approximately HK\$419,640,000), being the sum of the agreed pre-money valuation of RMB278 million (equivalent to approximately US\$43,800,000 or HK\$339,000,000) of Duomi Music (determined with reference to the appraised fair value of 100% of the shareholder equity of Duomi Music of RMB282 million (equivalent to approximately HK\$343,900,000) as at 30 June 2012 as per a valuation report (the “**Valuation Report**”, details of which are disclosed in the paragraph headed “Valuation Report” below) prepared by Asset Appraisal Limited (the “**Asset Appraisal**” or “**Valuer**”), an independent Valuer engaged by the Company to conduct a valuation on Duomi Music) plus the total consideration to be paid by the Subscribers (US\$10,000,000, equivalent to HK\$78,000,000) under the Second Duomi Music Share Subscription Agreement.

The consideration to be paid by Huayi and Hina for the subscription of 6,933,146 and 2,311,049 Duomi Music Preferred Shares respectively is US\$3 million (equivalent to approximately HK\$23.4 million) and US\$1 million (equivalent to approximately HK\$7.8 million) respectively, which were determined based on arm’s length negotiation between Huayi, Hina and Duomi Music with reference to the post-money valuation of Duomi Music.

The subscription price per Preferred Share is US\$0.433. The subscription price per Preferred Share to be paid by the Company, Huayi and Hina is definitely the same.

Each of the Subscribers shall pay 70% of its aggregate subscription price on the Completion Date. If the User Targets Accomplishment Rate (as defined in the section headed “Valuation adjustment” below) has ever reached or exceeded 90% on the last day of any one of the calendar month of September, October, November or December 2012, the Final Installment shall be paid within 10 Business Days after the issuance of a written notice by Duomi Music to the Subscribers indicating that its User Targets Accomplishment Rate reaches 90%. However, if the User Targets Accomplishment Rate has never reached 90% on the last day of any one of the calendar month of September, October, November or December 2012, the parties to the Second Duomi Music Share Subscription Agreement shall take all necessary actions to ensure the completion of the valuation adjustment as set out in the section headed “Valuation adjustment” below, (i) in the event the Actual Fully-Diluted Post-Money Valuation (as defined in the section headed “Valuation adjustment” below) adjusted is less than 70% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000), the Subscribers do not need to pay the Final Installment or any additional consideration, while the shareholding percentage of each Subscriber in Duomi Music (calculated on a fully diluted and as-converted basis) shall be adjusted as stipulated in the section headed “Valuation adjustment”; and (ii) in the event the Actual Fully-Diluted Post-Money Valuation is 70% or more but less than 90% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000), the Subscribers shall pay the Adjusted Final Installment within three months after the issuance of the above written notice.

In September 2011 (when the Company decided to make the First Duomi Music Share Subscription), Duomi Music is still in early stage of development and its prospect is not evident. Duomi Music has made encouraging business developments since November 2011 (the “**Recent Developments of Duomi Music**”):

- a. The quadruple of the number of accumulated users;

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- b. Almost triple of the number of the monthly active users;
- c. the broad collaboration by contracts with device manufacturers including Lenovo, Coolpad, Hi-Sense, K-touch and etc., who will preload Duomi Music services into their smartphone handsets, which will further increase Duomi Music's brand awareness as well as expand its market share; and
- d. the consensus with the major digital music service providers in the PRC and the big 3 international labels (Universal, Sony, and Warner, the "**Big 3 International Labels**") that will jointly launch user-pay music services this year.

The Recent Developments of Duomi Music indicate not only that Duomi Music's own market share is expanding but also the user-pay digital music service offering is imminent.

Having considered the Recent Developments of Duomi Music, the consideration to be paid by Phoenix Success for the Second Duomi Music Share Subscription is determined after arm's length negotiation between Phoenix Success and Duomi Music with reference to the post-money valuation of Duomi Music of approximately US\$53,800,000 (equivalent to approximately HK\$419,640,000), being the sum of the agreed pre-money valuation of RMB278 million (equivalent to approximately US\$43,800,000 or HK\$339,000,000) of Duomi Music (determined with reference to the appraised fair value of 100% of the shareholder equity of Duomi Music of RMB282 million (equivalent to approximately HK\$343,900,000) as at 30 June 2012 as per the Valuation Report).

Given also that (i) the consideration for the Second Duomi Music Share Subscription will be adjusted with reference to the User Targets Accomplishment Rate which is determined by, among others, the total number of actual Accumulated Users and Monthly Active Users (being the key parameters of the Valuation Report); and (ii) that at any time and from time to time starting from the fourth anniversary of the Completion Date, each of the shareholders of Duomi Music shall take all necessary actions to cause Duomi Music to redeem all (but not less than all) of the Duomi Music Preferred Shares held by any of the Subscribers (as applicable), upon such Subscriber's written request to Duomi Music, for a redemption price per share equal to 140% of the subscription price of the Duomi Music Preferred Shares plus all accrued but unpaid dividends, the Directors considered that the consideration for the Second Duomi Music Share Subscription is fair and reasonable and in the interests in the Company and the Shareholders as a whole.

Valuation adjustment:

It is one of the conditions precedent to the Second Duomi Music Share Subscription Agreement that the parties to the Second Duomi Music Share Subscription Agreement to execute the Shareholders Agreement. The Shareholders Agreement was executed on 17 September 2012.

Pursuant to the terms of the Shareholders Agreement, within 30 days following 31 December 2012, Duomi Music shall issue a written notice to the Subscribers regarding whether the User Targets Accomplishment Rate reaches 90%. If yes (i.e. the User Targets Accomplishment Rate has ever reached or exceeded 90% on the last day of any one of the

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calendar month of September, October, November or December 2012), the Final Installment shall be paid within 10 Business Days after the issuance of the above written notice; If not (i.e. the User Targets Accomplishment Rate has never reached the 90% target on the last day of any one of the calendar month of September, October, November and or December 2012), a specific valuation adjustment plan shall be made according to the relevant methods of adjustment (if applicable) and within three months after the issuance of the above written notice, the parties to the Shareholders Agreement shall take all necessary actions to ensure the completion of the valuation adjustment, (i) in the event the Actual Fully-Diluted Post-Money Valuation adjusted is less than 70% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000), the Subscribers do not need to pay the Final Installment or any additional consideration, while the shareholding percentage of each Subscriber in Duomi Music (calculated on a fully diluted and as-converted basis) shall be adjusted as mentioned below; and (ii) in the event the Actual Fully-Diluted Post-Money Valuation is 70% or more but less than 90% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000), the Subscribers shall pay the Adjusted Final Installment within three months after the issuance of the above written notice.

From the date of entering into the Second Duomi Music Share Subscription Agreement (i.e. 17 September 2012) till 31 December 2012 (the “**Period**”), Duomi Music shall share its operation information including but not limited to the total number of actual Accumulated Users / actual Monthly Active Users and the User Targets Accomplishment Rate with the Subscribers during the first week following the end of the months of September, October, November and December 2012 (together with appropriate supporting materials). Such information could be verified by the Subscribers by logging into Duomi Music’s Back-end System. The Directors consider that the foregoing procedures are enough to serve the purpose of monitoring the User Targets Accomplishment Rate during the Period for the Company.

User Targets Accomplishment Rate (the “**User Targets Accomplishment Rate**”) = $C/R \times 50\% + D/S \times 50\%$

where,

“C” = the total number of actual Accumulated Users on the last day of a calendar month

“R” = the target number of Accumulated Users, 80,000,000

“D” = the total number of actual Monthly Active Users on the last day of the same calendar month

“S” = the target number of Monthly Active Users, 17,000,000

If the User Targets Accomplishment Rate has ever reached or exceeded 90% on the last day of any one of the calendar month of September, October, November or December 2012, the fully diluted post-money valuation of Duomi Music shall remain as US\$53,800,000 (equivalent to approximately HK\$419,640,000) and no adjustment shall be made.

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If Duomi Music's actual User Targets Accomplishment Rate has never reached 90% on the last day of any one of the calendar month of September, October, November or December 2012, one-off downward adjustment to the fully-diluted post-money valuation of Duomi Music shall be made based on the following formula applicable to the relevant Subscribers:

Actual fully-diluted post-money valuation (the "**Actual Fully-Diluted Post-Money Valuation**") = $T \times A$

where,

"T" = the highest User Targets Accomplishment Rate on the last day of any one of the calendar month of September, October, November or December 2012

"A" = US\$53,800,000 (equivalent to approximately HK\$419,640,000)

In the event the Actual Fully-Diluted Post-Money Valuation adjusted is less than 70% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000), the Subscribers do not need to pay the Final Installment or any additional consideration, while the shareholding percentage of each Subscriber in Duomi Music (calculated on a fully diluted and as-converted basis) shall be calculated based on the following formula:

The shareholding percentage of the Duomi Music Preferred Shares of the Subscriber in Duomi Music (calculated on a fully diluted and as-converted basis; for the avoidance of doubt, without any ESOP) = M/N

In the event the Actual Fully-Diluted Post-Money Valuation is 70% or more but less than 90% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000), the Subscribers shall pay the Adjusted Final Installment within three months after the issuance of the above written notice. The Adjusted Final Installment shall be calculated based on the following formula:

The Adjusted Final Installment = $N \times O - M$

where,

"N" = the Actual Fully-Diluted Post-Money Valuation

"O" = the Subscriber's then shareholding percentage of the Duomi Music Preferred Shares in Duomi Music (calculated on a fully diluted and as-converted basis; for the avoidance of doubt, without any ESOP)

"M" = the First Installment

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There should be a direct correlation between the number of Accumulated Users/Monthly Active Users and the future revenue/profit of Duomi Music, for:

- a. the more monthly/daily active users, the more users enjoy Duomi Music service, the more users are likely to become the paid users when/if the user-pay services are launched; and
- b. the more active users, the more advertisements on the Duomi platform will be likely to be viewed and clicked and thus the more advertisements will be run and more advertisement income to be generated for Duomi Music.

Given the direct correlation between the number of Accumulated Users/Monthly Active Users and the future profitability of Duomi Music, the Directors considered that it is fair and reasonable to adjust the consideration based on the User Targets Accomplishment Rate.

Board composition:

Pursuant to the terms of the Shareholders Agreement, the board of directors of Duomi Music shall consist of five directors. Phoenix Success shall be entitled to nominate two directors of Duomi Music and Fortune Light shall be entitled to nominate one director of Duomi Music, and the other two directors of Duomi Music shall be nominated by unanimous consent of all the three directors nominated by Phoenix Success and Fortune Light out of the management of Duomi Music. Either Phoenix Success or Fortune Light can nominate directors of Duomi Music from its management team subject to both parties' consent before appointment.

Duomi Music shall invite one representative of each Subscriber that is not entitled to appoint any director of Duomi Music (the “**Board Observer(s)**”) to attend all meetings of the board of directors of Duomi Group and all committees thereof in a non-voting observer capacity, and shall provide the Board Observers concurrently with the members of the board of directors of Duomi Music, and in the same manner notices of such meetings and all materials provided to such members. The Board Observers shall have access to all information granted to any director of Duomi Music for as long as such Subscriber holds the Duomi Music Preferred Shares which, on an as-converted basis, equal to 3% or more of the total ordinary shares of Duomi Music after conversion.

Given the above, Phoenix Success will not obtain control of the board of Duomi Music upon Completion.

VALUATION REPORT

The Valuation Report is prepared by Asset Appraisal based on income approach, which estimates the future economic benefits of the target entity and discounts these benefits to its present worth using a discount rate appropriate for the risks associated with realizing those benefits, focuses on the income-producing capability of the business operation of Duomi Music.

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The income estimation on the Valuation Report, which were provided by Duomi Music, is derived based on the active users on Duomi platform and its growth pattern, the paid-user conversion rate and future change pattern, average revenue per active user (ARPU) and the cost of per one thousand impressions (the “CPM”). The active users and its growth pattern are estimated based on the historical data and growth project on Duomi platform. The paid-user conversion rate and its future change pattern are estimated based on Duomi’s small testing user base and the user-pay conversion rate from Spotify (www.spotify.com), a well-known digital music service in Europe and America. The CPM is also based on the Duomi’s testing bed. The Directors views these estimations are fair and reasonable.

In preparation of the Valuation Report, parameters which were initially provided by Duomi Music and reviewed by the Company, and based on which the Valuer has evaluated the market value of Duomi Music, together with the Valuer’s opinions are stated as follows:-

- (a) The ratio of the monthly active to totally accumulated users ranges from initial 25% to 18% by 2018. The ratio is estimated on the current data;

The Valuer has considered that the estimation made by Duomi Music is reasonable with reference to the same ratios of comparable websites as set out below:

Example 1: NQ (網秦, NQ Mobile Inc., a listed company on NYSE with the stock code “NQ”):

	2008	2009	2010
No. of registered users	15,180,000	35,630,000	71,690,000
No. of active users	5,460,000	11,960,000	25,440,000
Active ratio	35.97%	33.57%	35.49%

Example 2: EverNote (Evernote Corporation)

	2009	2010
No. of registered users	2,096,030	6,003,130
No. of active users	619,211	2,089,705
Active ratio	29.54%	34.81%

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Example 3: Pandora (Pandora Media, Inc., A NYSE listed public company with the stock code “P”)

	2011
No. of registered users	150,000,000
No. of active users	49,000,000
Active ratio	32.67%

- (b) The percentage of monthly subscription paid-users and percentage of one-time paid-users range from 2%-4% over the next 8 years;

Regarding the ratio of monthly active to totally accumulated users, the Valuer has considered that the estimation made by Duomi Music is reasonable with reference to the same ratios of comparable websites as set out below:

Example 1: NQ(網秦):

	2008	2009	2010
No. of registered users	15,180,000	35,630,000	71,690,000
No. of paid users	1,030,000	1,140,000	3,240,000
paid-conversion ratio	6.79%	3.20%	4.52%

Example 2: EverNote

	2009	2010
No. of registered users	2,096,030	6,003,130
No. of paid users	35,310	201,308
paid-conversion ratio	1.7%	3.4%

Example 3: SINA Corp (Sina Corporation, a Nasdaq listed public company with the stock code “SINA”)

As revealed by the Global Market Intelligence Survey 2011, SINA has total registered user of 83.28 million and paid user of more than 10 million, meaning the paid-conversion ratio of 12%.

Example 4: Spotify (Spotify Limited)

As at November 2011, Spotify has total registered user of 10 million and paid user of about 3 million, meaning the paid-conversion ratio of 30%.

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- (c) The monthly subscription fee for monthly paid-member is projected to be in the range of RMB5 to RMB10. The per-download fee for full-track or ringtone is projected to be in the range of RMB1-RMB2;

The Valuer has considered that the estimation made by Duomi Music is reasonable with reference to Xunlei whose monthly subscription fee is RMB10 per month.

- (d) Average songs listened and average page views (the “PV”) per active user per month range from 20-30 songs and 30-40 PV respectively over the next 8 years; and

The Valuer has considered that the estimation made by Duomi Music is reasonable based on Duomi Music’s historical operating records and the Company’s past experience.

- (e) the CPM is forecasted to range from RMB1.2 to RMB5 over next 8 years.

The Valuer has considered that the estimation made by Duomi Music is reasonable based on Duomi Music’s historical operating records and the Company’s past experience.

The advertisement revenue per month is computed as the total number of PV per month/1000*CPM:–

1. Total number of PV per month = monthly active users * (average number of songs listened per month+ average number of PV per month). At present, the average number of songs listened and the average PV per month per active user on Duomi Mobile Client are 20 songs and 30 pages respectively;
2. The current CPM on Duomi Mobile Client is around RMB1.2.

The Company understands the PC users listen to 30 songs on average per month on Duomi Music’s competitors’ PC platform and the advertisement CPM is valued as RMB5. The mobile internet advertisement industry is at very early stage at present. With mobile network data traffic increasing, mobile network speed being improved and smartphones being further penetrated in the consumer market, we expect that mobile internet users would listen as many songs as on PC platform, the projected 30 songs as well as 40 PV per user per month and CPM RMB5 are achievable in the next 2-3 years down the road.

For NQ, EverNote, SINA, Pandora and Spotify:

- a. Like Duomi Music, these companies are providing services to users. Their active user ratio and paid-conversion ratio are very representative in the internet industry. The projected active ratio and paid-conversion ratio from Duomi Music falling within the range of the respective ratio from these companies reflects the projection is both fair and reasonable.

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- b. Furthermore, Pandora and Spotify are not only the internet companies, but also the leading digital music service providers internationally. They set the industrial standards for digital music industry, their active ratio and paid-conversion ratio reflect the future trend of digital music industry, to a great extent, it represents the potential of Duomi Music.

Based on the operating data of Duomi Music provided by Duomi Music and verified by the Company through logging into Duomi Music's Back-end System, the data from domestic and foreign companies in the similar industry (including Tencent (Stock Code: 00700.HK), NQ, Pandora, evernote, etc.), industry Reports and the Company's past experience in the music industry, the Board considered that the above parameters are reasonable and fair.

Since the appraised fair value of 100% of the shareholder equity of Duomi Music based on the Valuation Report involves various assumptions, there is a risk that it may or may not effectively reflect the true value of 100% of the shareholder equity of Duomi Music.

THE DUOMI MUSIC PREFERRED SHARES

Conversion right:

Holders of the Duomi Music Preferred Shares shall have the following rights with respect to the conversion of the Duomi Music Preferred Shares into Duomi Music Shares:

Conversion price

The number of Duomi Music Shares to which a holder shall be entitled upon conversion of any Duomi Music Preferred Share shall be the quotient of the original issue price divided by the applicable conversion price.

Optional Conversion

The holder of any Duomi Music Preferred Share shall have the option to request that all (but not less than all) the Duomi Music Preferred Shares it holds be converted at any time, without the payment of any additional consideration, into fully-paid Duomi Music Shares.

Automatic Conversion

Each Duomi Music Preferred Share shall automatically be converted, based on the applicable conversion price, without the payment of any additional consideration, into Duomi Music Shares upon the earlier of (i) the closing of the Qualified IPO, or (ii) the date upon which Duomi Music obtains the vote or consent of the holders of at least 80% of the then outstanding Duomi Music Preferred Shares voting together as a single class.

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Adjustment of conversion price

Pursuant to the terms of the Shareholders Agreement, the initial conversion price shall be the original subscription price (i.e. US\$0.433 per Duomi Music Preferred Share), but the applicable conversion price effective then shall be determined and adjusted based on arm's length negotiation between the Subscribers and the Duomi Music if such events of Duomi Music occur in the future as share splits, share combinations, ordinary share dividend and distributions, reorganizations, mergers and acquisitions, consolidations, etc.. Therefore, the applicable conversion price is not definite as at the Latest Practicable Date.

Redemption right

At any time and from time to time beginning from the fourth anniversary of the Completion Date, each of the shareholders of Duomi Music shall take all necessary actions to cause Duomi Music to redeem all (but not less than all) of the Duomi Music Preferred Shares held by any of the Subscribers (as applicable), upon such Subscriber's written request to Duomi Music, for a redemption price per share equal to 140% of the subscription price of the Duomi Music Preferred Shares (the "**Redemption Price**") plus all accrued but unpaid dividends.

The Redemption Price was determined based on arm's length negotiation between the Subscribers and Duomi Music and shall be subject to adjustments for the same reasons for adjustment of the conversion price.

The Directors considered the Redemption Price is fair and reasonable, for:

- a. if the future performance of Duomi Music is not satisfactory to the Company, the Company has an option to ask Duomi Music to redeem all its Preferred Shares; and
- b. the Redemption Price equals to the subscription price grows nearly 10% over every year, which is much higher than the return rate of common financial management products.

Termination of the redemption right

If Duomi Music's pre-money valuation equals to US\$107,600,000 (equivalent to approximately HK\$839,280,000, the "**Target Value**") or more in any further round of financing, merger and acquisition or other exiting opportunities for the Subscribers, the Subscribers' redemption rights shall be automatically terminated once such further round financing is closed; provided, however, that the amount of the further round financing (excluding any amount invested by Phoenix Success and one of the Founders, Mr. Liu, in such further round financing, if any) shall not be less than US\$10,000,000 (equivalent to approximately HK\$78,000,000) if such further round financing is in the form of issuance of additional shares of Duomi Music.

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The Target Value which should be determined by future open-market transactions such as future round fund-raising, merger and acquisition or IPO, is twice as much as the post-money valuation of Duomi Music upon the Completion of the Second Duomi Music Share Subscription of approximately US\$53,800,000, which is derived from the negotiation result among the Subscribers and Duomi Music that Duomi Music should at least double its value since the Completion within the next four years, and Duomi Music's failure to achieve the Target Value will give an option to the Subscribers to request Duomi Music to redeem all Duomi Music Preferred Shares held by them.

Setting the termination clause for the redemption right is also the negotiation results among the Subscribers and Duomi Music. The Directors consider it is fair and reasonable, for accompanying with the achievement of the Target Value, the Company will get fairly good return from the investment in Duomi Music, its objective of investment in Duomi Music has been realized, termination of the redemption right would not affect the Company's interests.

Dividend rights

In the event Duomi Music shall declare a distribution, all shareholders of Duomi Music shall be entitled to a proportionate share of any such distribution based on their respective pro rata shares (calculated on a fully diluted and as-converted basis) as at the time of such declaration (or in the event such record date is fixed, as at the close of business on such record date). No dividend shall be paid to other shareholders of Duomi Music unless and until a dividend is first paid in full to the Subscribers.

INFORMATION ON THE DUOMI GROUP

Duomi Music is a company incorporated under the laws of the Cayman Islands. The Duomi Group is principally engaged in providing online and connected digital music services directly to consumers.

The consolidated loss (both before and after taxation and extraordinary items) of the Duomi Group for the year ended 31 December 2010, 31 December 2011 and the eight months ended 31 August 2012 according to the management accounts prepared under the PRC generally accepted accounting principle were approximately RMB14,462,896 (equivalent to approximately HK\$17,637,678), RMB23,286,989 (equivalent to approximately HK\$28,398,767) and RMB31,437,619 (equivalent to approximately HK\$38,338,560) respectively.

The consolidated net liability of the Duomi Group as at 31 December 2010, 31 December 2011 and 31 August 2012 according to the management accounts prepared under the PRC generally accepted accounting principle were approximately RMB13,816,147 (equivalent to approximately HK\$16,848,960), RMB5,753,136 (equivalent to approximately HK\$7,016,019) and RMB25,718,430 (equivalent to approximately HK\$31,363,939) respectively.

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The current loss and net liabilities position of the Duomi Group has been fully considered and assessed and the Directors are of the view that despite its temporary loss and net liability, Duomi Music has a strong and increasing user base with great value that can bring potential huge revenue and profit in the long run.

REASONS FOR THE SECOND DUOMI MUSIC SHARE SUBSCRIPTION

The Group is principally engaged in providing mobile value-added services, focusing on music and culture related content through mobile phones in the PRC.

As disclosed in the Company's announcement dated 19 September 2011, the Company would closely monitor the business development and performance of the Duomi Group and in the future might increase its shareholding interest in Duomi Music through Phoenix Success or the Company when the Board considers the same being appropriate and in the interests of the Company and the Shareholders as a whole after taking into account factors such as the future business prospect and performance of the Duomi Group, the prevailing market conditions and investment environment and the business opportunities by then available to the Company.

As mentioned, the business development and performance of the Duomi Group has made encouraging progress since November last year. According to the Wireless Music Market Research Report in 2011 (《二零一一年中國無線音樂發展狀況研究報告》) published by iiMedia Research Group, the leader of global mobile internet research which is founded in 2004, the Duomi Mobile Client ranked No.1 in respect of both the market share (54.3%) and the percentage of the newly registered users (42.1%) in 2011 in the whole digital music industry. The Board considers that the further investments by the Company through Phoenix Success in the Duomi Group by the Second Duomi Music Share Subscription would integrate the strong aspects of Duomi Music and provide synergy to the music cloud business of the Company, for the Company is developing its own music cloud business mainly through cross platform including home entertainment system, PC, auto entertainment system and mobile phone, etc., through cooperation with Duomi Music, the Company could utilize Duomi Music's large scale of mobile phone users to strengthen its cross platform services; furthermore, by collaboration on music meta-data repository and operation with Duomi Music, the Company could save operation cost, therefore, which will enhance the Group's market share and strengthen the Group's market position in digital music sector and would help the Group to achieve its goal to be the leading digital music service provider in the PRC.

The total consideration payable by Phoenix Success for the Second Duomi Music Share Subscription will be funded by the Group's internal cash resources. The terms of the Second Duomi Music Share Subscription Agreement are on normal commercial terms and have been arrived at after arm's length negotiation between Phoenix Success and Duomi Music.

Duomi Music has been accumulating its own users currently and the value brought by its users will gradually increase as the accumulated and active user scale further grows as well as the trend of payment for licensed music in the PRC comes.

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Since last year, the readiness of monetizing music services in the PRC has been improving significantly:

- A. In 2011, new legislation classifies cases of excessive piracy as criminal while in the past as just civil;
- B. In July 2011, Baidu, one of the largest search engine in the PRC, has reached an agreement with the Big 3 International Labels in offering legal music services;
- C. In 2012, the major digital music service providers (including Duomi Music) have jointly agreed and committed together with the Big 3 International Labels to launch legal and user-pay music services by end of 2012, which is a milestone for the digital music industry in the PRC.

The above changes indicate that illegal music distribution has been further suppressed in the PRC, whilst listening music is a must and inevitable need for vast majority users, we believe users of digital music industry, who will just like the users of digital reading industry and digital video industry, will gradually get used to paying for legal music services and become paid-users. Therefore, the Directors expect that Duomi Music will enter into the monetization phase next year and its financial position will gradually be improved in future, which will bring more return for the Shareholders.

Having considered the above, the Directors are of the view that the terms of the Second Duomi Music Share Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and that the Second Duomi Music Share Subscription is in the interests of the Company and the Shareholders as a whole.

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CHANGES IN THE SHAREHOLDING STRUCTURE OF DUOMI MUSIC

The shareholding structure of Duomi Music after Completion is as follows:–

Shareholders of Duomi Music	As at the Latest Practicable Date		Immediately after the Completion (assuming no option under the existing ESOP has been exercised)		Immediately after the Completion (assuming options under the existing ESOP have been exercised in full)		Immediately after the Completion (assuming options under the existing ESOP and additional ESOP have been exercised in full)	
	Number	%	Number	%	Number	%	Number	%
Phoenix Success	36,393,360	42.69	50,247,228	46.38	50,247,228	40.44	50,247,228	37.44
Fortune Light	35,435,640	41.57	35,435,640	32.71	35,435,640	28.52	35,435,640	26.41
Hero Victory Investments Limited	7,661,760	8.99	7,661,760	7.07	7,661,760	6.17	7,661,760	5.71
Bile Investments Limited	3,264,694	3.83	3,264,694	3.01	3,264,694	2.63	3,264,694	2.43
Beyond Faith Limited	2,489,328	2.92	2,489,328	2.30	2,489,328	2.00	2,489,328	1.86
Huayi	–	–	6,933,146	6.40	6,933,146	5.58	6,933,146	5.17
Hina	–	–	2,311,049	2.13	2,311,049	1.86	2,311,049	1.72
the existing ESOP	–	–	–	–	15,907,090	12.80	15,907,090	11.85
The additional ESOP	–	–	–	–	–	–	9,939,995	7.41
Total	85,244,782	100	108,342,845	100	124,249,935	100	134,189,930	100

Note: Duomi Music has adopted the existing ESOP to motivate the senior management and staff of Duomi Music. As at the Latest Practicable Date, a total of 14,755,218 options entitling its holder(s) to subscribe for a total of 14,755,218 new Duomi Music Shares have been granted under the existing ESOP. Pursuant to the existing shareholder agreement dated 23 April 2012 entered into by Duomi Music and all of its shareholders, until immediately prior to the initial public offering of Duomi Music, if new shares of Duomi Music to be allotted and issued, some management of Duomi Music shall be granted with additional options so that their respective percentages of share options (on fully-exercised base) in the total issued shares of Duomi Music shall remain the same (4.75% in total) and at the same price as the price of any new securities to be issued by Duomi Music. As agreed by all parties to the Second Duomi Music Share Subscription Agreement, the existing shareholders will bear the cost of 4.75% anti-dilution terms. Which means, Duomi Music will grant additional options to management to maintain the 4.75% of their share options (assuming exercise in full) in the total issued share capital, the Existing Duomi Music Shareholders will bear the cost and be diluted thereby upon Duomi Music issues more Preferred Shares to the Subscribers to keep their share percentage the same with the additional options issued (for Phoenix Success, the share percentage is 11.15% before and after the 4.75% anti-dilution considered). The initial share number subscribed by Phoenix Success should be 11,677,294 while the number increased to 13,853,868 after the 4.75% anti-dilution was considered.

After the Completion, Duomi Music shall and the parties to the Second Duomi Music Share Subscription Agreement hereto shall procure Duomi Music to reserve an additional ESOP equal to 7.41% of Duomi Music's then total share capital assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP as well as the additional ESOP in full, for allocation to employees, officers, directors or consultants of the Duomi Group pursuant to bona fide employment-related share purchase or option plans to be approved by the board of directors of Duomi Music.

LETTER FROM THE BOARD

THE ESOP

The key terms of the existing ESOP includes:-

- a. The maximum number of Duomi Music Shares that may be covered by options granted under the existing ESOP shall not exceed 14,755,218 shares;
- b. The exercise price per share option granted under the existing ESOP is usually determined by the board of directors of Duomi Music or the committee as appointed by the board of directors of Duomi Music from time to time to administer the existing ESOP (the “**Committee**”), usually base on the fair market value per share on the date on which such Option is granted (the “**Grant Date**”), but may be more than, less than or equal to 100% of the fair market value of one Duomi Music Share on the Grant Date; provided, however, that the exercise price may not be less than the par value of Duomi Music Shares on the Grant Date;
- c. No option may be exercised prior to the one hundred and eightieth day after an initial public offering of the Duomi Music Shares subject to adjustment if the stock exchange has different requirements or such other earlier date as deemed fit by the board of directors of Duomi Music or the Committee; and
- d. No Option shall be exercisable after the expiration of ten years from the Grant Date.

Furthermore, the Subscribers and Duomi Music have agreed on reserving additional ESOP equal to 7.41% of Duomi Music’s then total outstanding shares (assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP as well as the additional ESOP in full) upon Completion, however, the terms and conditions of such additional ESOP, which shall then be subject to the approval of all shareholders of Duomi Music, have not been negotiated or considered yet up to the Latest Practicable Date.

The Subscribers and Duomi Music agree that maintaining an around 20% ESOP pool out of the total fully-diluted share capital could offer a good incentive to the Duomi Music management team and employees. Assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP as well as the additional ESOP in full, the share percentage of total ESOP is about 19.26%.

IMPLICATIONS UNDER THE LISTING RULES

Given that (1) Fortune Light, a 41.57% shareholder of Duomi Music, is owned as to 100% by Mr. Liu and is an Associate of Mr. Liu; and (2) Mr. Liu is an executive Director and a Controlling Shareholder, Duomi Music is a Connected Person of the Company and the Second Duomi Music Share Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules, Mr. Liu has material interest in the transaction contemplated under the Second Duomi Music Share Subscription.

LETTER FROM THE BOARD

As the relevant applicable percentage ratios set out under the Listing Rules in respect of the Second Duomi Music Share Subscription (together with the First Duomi Music Share Subscription) exceed 5% but are less than 25%, the Second Duomi Music Share Subscription also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

The Second Duomi Music Share Subscription is subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules.

The EGM will be held to consider and, if thought fit, approve by the Independent Shareholders by way of ordinary resolution in relation to the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder. Mr. Liu and his Associates will be required to abstain from voting at the EGM according to the requirements of Chapter 14A of the Listing Rules.

Except Mr. Liu and his Associates, to the best knowledge and belief of the Directors, there is no other Shareholder who has material interest in the transaction contemplated under the Second Duomi Music Share Subscription and should be required to abstain from voting at the EGM.

For the Board meeting held for considering and approving the proposal of entering into the Second Duomi Music Share Subscription Agreement, 1). Mr. Liu, an executive Director, and 2). Mr. Lu Bin, an executive Director, who has been appointed as a director for Duomi Music following the completion the First Duomi Music Share Subscription, has material interest in the transaction contemplated under the Second Duomi Music Share Subscription as well, have abstained from voting on the board resolution. Except Mr. Liu and Mr. Lu Bin, all the other three Directors have voted for the mentioned board resolution.

EGM

A notice convening the EGM to be held at 10:30 a.m on 11 December 2012 at Suites 903-905, 9/F Shui On Centre, 628 Harbour Road, Wanchai, Hong Kong, at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder, is set out from pages 53 to 54 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the office of the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

LETTER FROM THE BOARD

An ordinary resolution as set out in the notice of the EGM will be put to the vote of the Independent Shareholders by way of poll. An announcement will be made by the Company following the conclusion of the EGM to inform you of its results.

RECOMMENDATION

The Directors consider that the terms of the Second Duomi Music Share Subscription Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder.

The Independent Board Committee has been established to advise the Independent Shareholders on the terms of the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder. Guangdong Securities has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in this regard. The respective letters from the Independent Board Committee and Guangdong Securities are set out on page 32 and from pages 33 to 46 of this circular respectively. You are advised to read the letters carefully before making your voting decision.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

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



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)

20 November 2012

To the Independent Shareholders,

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
THE SECOND DUOMI MUSIC SHARE SUBSCRIPTION**

We refer to the circular of the Company dated 20 November 2012 (the “**Circular**”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the terms of the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder. Guangdong Securities has been appointed as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in this regard.

Having considered the advice and recommendations of Guangdong Securities as set out from pages 33 to 46 of the Circular, we are of the opinion that the terms of the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,

For and on behalf of the
Independent Board Committee

Mr. Chan Yiu Kwong

Mr. Zeng Liqing

Ms. Wu Shihong

Independent non-executive Directors

LETTER FROM GUANGDONG SECURITIES

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Second Duomi Music Share Subscription for the purpose of inclusion in this circular.



Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

20 November 2012

*To: The independent board committee and the independent shareholders
of A8 Digital Music Holdings Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE SECOND DUOMI MUSIC SHARE SUBSCRIPTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Second Duomi Music Share Subscription, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 20 November 2012 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

Further to the First Duomi Music Share Subscription, the Board announced that on 17 September 2012, the Duomi Group, the Founders, the Existing Duomi Music Shareholders and the Subscribers entered into the Second Duomi Music Share Subscription Agreement, pursuant to which (i) Phoenix Success conditionally agreed to subscribe for 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full) at the total consideration of US\$6 million (equivalent to approximately HK\$46.8 million); and (ii) Huayi and Hina conditionally agreed to subscribe for 6,933,146 and 2,311,049 Duomi Music Preferred Shares, respectively, at the consideration of US\$3 million (equivalent to approximately HK\$23.4 million) and US\$1 million (equivalent to approximately HK\$7.8 million) respectively.

Upon conversion of the Duomi Music Preferred Shares in full, Phoenix Success will hold a total of 50,247,228 Duomi Music Shares (representing approximately 40.44% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription

LETTER FROM GUANGDONG SECURITIES

assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full). Accordingly, Duomi Music will remain as an associated company of the Company.

According to the Board Letter, the Second Duomi Music Share Subscription constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. In addition, as (i) Fortune Light, an existing 41.57% shareholder of Duomi Music, is owned as to 100% by Mr. Liu and is an Associate of Mr. Liu; and (ii) Mr. Liu is an executive Director and a controlling Shareholder, Duomi Music is a Connected Person of the Company and the Second Duomi Music Share Subscription constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Second Duomi Music Share Subscription is subject to the reporting, announcement, circular and independent shareholders' approval requirements under the Listing Rules. The EGM will be held to consider and, if thought fit, approve by the Independent Shareholders by way of ordinary resolution in relation to the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder. Mr. Liu and his Associates will be required to abstain from voting at the EGM.

An Independent Board Committee comprising Mr. Chan Yiu Kwong, Mr. Zeng Liqing and Ms. Wu Shihong (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of the Second Duomi Music Share Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Second Duomi Music Share Subscription is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) to approve the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder at the EGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

LETTER FROM GUANGDONG SECURITIES

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group or the Duomi Group and we have not been furnished with any such evaluation or appraisal, save as and except for the Valuation Report on the fair market value of the 100% of the shareholder equity of Duomi Music. The Valuation Report was prepared by Asset Appraisal. Since we are not experts in the valuation of business, we have relied solely upon the Valuation Report for the fair market value of the 100% of the shareholder equity of Duomi Music as at 30 June 2012 (the “**Valuation**”). Shareholders should also note that since the Valuation involves various basis and assumptions, it may or may not accurately reflect the true market value of the 100% of the shareholder equity of Duomi Music.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Duomi Group, the Subscribers or their respective subsidiaries or Associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Second Duomi Music Share Subscription. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Second Duomi Music Share Subscription, we have taken into consideration the following principal factors and reasons:

Background of the Second Duomi Music Share Subscription

Information on the Group

The Group is principally engaged in providing mobile value-added services (“**MVAS**”), focusing on music and culture related content through mobile phones in the PRC.

LETTER FROM GUANGDONG SECURITIES

Set out below is a table showing the key financial data of the Group for the two years ended 31 December 2011 and the six months ended 30 June 2012 as extracted from the Company's annual report for the year ended 31 December 2011 (the "2011 Annual Report") and interim report for the six months ended 30 June 2012 (the "2012 Interim Report"):

	For the six months ended 30 June 2012 (unaudited) RMB'000	For the year ended 31 December 2011 (audited) RMB'000	For the year ended 31 December 2010 (audited) RMB'000	% change from 2010 to 2011 %
Revenue	184,079	483,587	681,839	(29.08)
– Ringtone services	15,382	53,404	81,928	(34.82)
– Ringback tone services	108,070	246,448	238,878	3.17
– Interactive voice response music	–	–	3,234	N/A
– Other music related services	2,169	8,966	32,617	(72.51)
– Non-music related services	58,458	174,769	325,182	(46.26)
Gross profit	61,650	186,125	251,773	(26.07)
Profit/(loss) for the period	(9,638)	12,915	42,318	(69.48)
	As at 30 June 2012 (unaudited) RMB'000	As at 31 December 2011 (audited) RMB'000	As at 31 December 2010 (audited) RMB'000	% change from 2010 to 2011 %
Total assets	666,583	668,352	641,032	4.26
Total liabilities	130,904	127,574	119,514	6.74
Net assets	535,679	540,778	521,518	3.69

From the above table, we noted that the Group's revenue, gross profit and profit for the year ended 31 December 2011 deteriorated as compared to the year ended 31 December 2010. With reference to the 2011 Annual Report, such deterioration in the financial performance of the Group was mainly due to the continuing negative impact brought by the strict regulations implemented to MVAS industry during 2010. As detailed in the 2012 Interim Report and as further confirmed by the Directors, the Group aims to strengthen its music content and co-operation with the major telecom operators in order to grasp the development opportunity of wireless music. In addition, the Group will continue to develop its mobile internet business, music cloud business through self-development and strategic investment.

LETTER FROM GUANGDONG SECURITIES

Information on the Duomi Group

Duomi Music is a company incorporated under the laws of the Cayman Islands. The Duomi Group is principally engaged in providing online and connected digital music services directly to consumers.

Set out below are the consolidated key financial information on the Duomi Group based on its management account for the two years ended 31 December 2011 and the eight months ended 31 August 2012:

	For the eight months ended 31 August 2012 RMB	For the year ended 31 December 2011 RMB	For the year ended 31 December 2010 RMB	% change from 2010 to 2011 %
Revenue	6,795,655	25,165,684	502,189	4,911.19
– Platform operations revenue	5,120,655	3,071,027	502,189	511.53
– Commissioned development revenue	1,675,000	22,094,657	–	N/A
Loss (both before and after taxation and extraordinary items)	(31,437,619)	(23,286,989)	(14,462,896)	N/A
	As at 31 August 2012 RMB	As at 31 December 2011 RMB	As at 31 December 2010 RMB	% change from 2010 to 2011 %
Total assets	18,065,070	29,297,905	15,819,317	85.20
Total liabilities	43,783,500	35,051,041	29,635,464	18.27
Net liabilities	25,718,430	5,753,136	13,816,147	(58.36)

We noted from the above table that the consolidated revenue of the Duomi Group increased by approximately 4,911.19% for the year ended 31 December 2011 (“**2011 Duomi Revenue**”) as compared to the year ended 31 December 2010. Nevertheless, the consolidated revenue of the Duomi Group for the eight months ended 31 August 2012 only represent 27.00% of the 2011 Duomi Revenue. In addition, we noted from the above table that the Duomi Group had been loss making for the two years ended 31 December 2011 and the eight months ended 31 August 2012. Upon our enquiry, the Directors advised us that (i) the revenue of Duomi Group comprised of its main stream platform operations revenue and commissioned development revenue (given that it is not a target revenue source under the business model of Duomi Group, the commissioned development revenue may not be recurrent in future); (ii) despite the commissioned development revenue of approximately RMB22.09 million for the year ended 31 December 2011 and approximately RMB1.68

LETTER FROM GUANGDONG SECURITIES

million for the eight months ended 31 August 2012 generated from the contracted development of the music cloud infrastructure for the Group, the revenue of Duomi Group generated from its platform operations was increased by approximately 511.53% for the year ended 31 December 2011 as compared to the prior year; and (iii) the continuous loss making position was mainly due to the substantial selling cost, research and development expenses and marketing expenses necessarily incurred for the promotion and development of Duomi Group under its development stage. As advised by the Directors, Duomi Music has been in the progress of improving its services, market shares and accumulating its own user base (especially active users). As advised by the Directors, there is positive correlation between the user base and the future profitability of Duomi Music and this positive correlation is common in the industry. In this regard, we have discussed and understood the basis of the aforesaid correlation with/from the Directors. The Recent Developments of Duomi Music in details are set out in the Board Letter. As advised by the Directors, Duomi Group planned to launch its advertisement-based services and paid services in early 2013. Accordingly, Duomi Group will also generate its main stream platform operations revenue from the advertisers and the accumulated users who choose the paid services of Duomi Group. Given the above and also the trend of purchase of licensed music content in the PRC, the Directors expect that Duomi Group will enter the monetization phase next year and its financial position will gradually be improved in future.

As further advised by the Directors, Duomi Music's business is based on mobile internet, which is an open platform. The accumulated users of Duomi Music belong to its own. In contrary, for the MVAS industry, the users of the MVAS belong to mobile telecommunications operators, thus all service providers are subject to the regulations of the measures and policies implemented to MVAS industry. Given that Duomi Music is not engaged in the MVAS industry, Duomi Music is not subject to the impact of the strict regulations to the MVAS industry.

Industry overview

With reference to the statistics of National Bureau of Statistics of China, from 2006 to 2011, the PRC's gross domestic product ("GDP") increased at a compound annual growth rate ("CAGR") of approximately 16.87% and reached approximately RMB47,156.4 billion in 2011. The PRC also experienced substantial growth in GDP per capita with a CAGR of approximately 16.11% from 2006 to 2010 and reached approximately RMB29,992 in 2010. During the period from 2006 to 2010, annual disposable income of urban households per capita increased from approximately RMB11,760 to approximately RMB19,109, representing a CAGR of approximately 12.91%.

We have obtained a copy of the 2011 PRC Wireless Music Market Research Report prepared by iiMedia Research Group (the "**2011 iiMedia Report**") from the Company and found the 2012Q1 PRC Wireless Music Market Quarterly Research Report (the "**2012Q1 iiMedia Report**") from iiMedia Research Group's website. iiMedia Research Group was founded in 2004 and is a professional independent research institute which is focus on smart phones, tablet PCs and mobile internet industry in the PRC. In 2012, iiMedia Research Group became a member of Chinese Association of Market Information and Research (the Chinese Association of Market Information and Research is managed by the National Bureau of Statistics of China) which focus on mobile internet market information research. As of

LETTER FROM GUANGDONG SECURITIES

September 2011, iiMedia Research Group released more than 500 reports in relation to the mobile internet industry in the PRC and served more than 200 foreign and local customers. We noted from the 2012Q1 iiMedia Report that the wireless (mobile) music software user in the PRC increased by approximately 18.64% from approximately 617 million in the first quarter of 2011 to approximately 732 million in the first quarter of 2012. The wireless (mobile) music software users who uses platforms provided by third parties increased by approximately 64.15% to approximately 174 million in the first quarter of 2012 as compared to the first quarter of 2011. With reference to the 2011 iiMedia Report and the 2012Q1 iiMedia Report and as advised by the Directors, the aforementioned wireless (mobile) music software includes the platform provided by Duomi Group. In addition, Duomi Music is popular to the wireless (mobile) music software users.

In addition, we have also found the extracts of the report regarding the internet music industry in the PRC published by the Ministry of Culture of the PRC in 2012 (the “**2011 MC Report**”). With reference to the 2011 MC Report that (i) the revenue generated from the on-line music increased with a CAGR of approximately 28.36% from 2007 to 2011 and reached approximately RMB380 million in 2011; (ii) the revenue generated from the wireless music increased with a CAGR of approximately 14.02% from 2007 to 2011 and reached approximately RMB2,400 million in 2011; and (iii) there is increasing effort in suppression of the illegal operation of the internet music.

We noted that the Duomi Group was in a loss making position for the two years ended 31 December 2011 and the eight months ended 31 August 2012 and recorded net liabilities as at 31 August 2012, 31 December 2011 and 31 December 2010. Taking into account (i) the above favourable statistics (including but not limited to the increase in wireless (mobile) music software users in the PRC, annual disposable income of urban households per capita and the popularity of Duomi Music among the wireless (mobile) music software users); (ii) the increasing effort in suppression of the illegal operation of the mobile internet music; (iii) that the revenue of Duomi Group generated from its main stream platform operations has been increasing since 2010; (iv) Duomi Group will also generate its main stream platform operations revenue from the advertisers and the accumulated users who choose the paid services of Duomi Group after the launch of Doumi Group’s advertisement-based services and paid services in early 2013; (v) Duomi Music will not be adversely impacted by the strict regulations implemented to the MVAS industry; and (vi) the Recent Developments of Duomi Music, we concur with the Directors that the future prospect of the Duomi Group is likely to be positive.

Reasons for the Second Duomi Music Share Subscription

As disclosed in the Company’s announcement dated 19 September 2011, the Company would closely monitor the business development and performance of the Duomi Group and in the future might increase its shareholding interest in Duomi Music through Phoenix Success or the Company when the Board considers the same being appropriate and in the interests of the Company and the Shareholders as a whole after taking into account factors such as the future business prospect and performance of the Duomi Group, the prevailing market conditions and investment environment and the business opportunities by then available to the Company.

LETTER FROM GUANGDONG SECURITIES

With reference to the Board Letter, the business development and performance of the Duomi Group has made encouraging progress since November 2011. According to the 2011 iiMedia Report, the software of Duomi Music ranked No.1 on the scale of total users and newly registered users in 2011 in the whole digital music industry. As advised by the Directors, the target customers of the Duomi Group are primarily mobile phone users who may also enjoy the music service through other portal devices. Having taken into the increasing trend on the uses of mobile internet, the Directors consider that the Group could increase its market share and solidify its leading position in digital music market through the Second Duomi Music Share Subscription and the further investments by the Company through Phoenix Success in the Duomi Group by the Second Duomi Music Share Subscription would integrate the strong aspects and provide synergy to the music cloud business of the Group and the Duomi Group, which will enhance the Group's market share and strengthen the Group's market position in digital music sector and would help the Group to achieve its goal to be the leading digital music service provider in the PRC.

Having also taken into account (i) the business strategy of the Group; and (ii) the positive potential future prospects of the Duomi Group, we concur with the Directors that the Second Duomi Music Share Subscription, although is not in the ordinary and usual course of business, is in the interests of the Company and the Shareholders as a whole.

Principal terms of the Second Duomi Music Share Subscription Agreement

On 17 September 2012, the Duomi Group, the Founders, the Existing Duomi Music Shareholders and the Subscribers entered into the Second Duomi Music Share Subscription Agreement, pursuant to which (i) Phoenix Success conditionally agreed to subscribe for 13,853,868 Duomi Music Preferred Shares (representing approximately 11.15% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming conversion of the Duomi Music Preferred Shares and exercise of the options under the existing ESOP in full) at the total consideration of US\$6 million (equivalent to approximately HK\$46.8 million) (the "**Consideration**"); and (ii) Huayi and Hina conditionally agreed to subscribe for 6,933,146 and 2,311,049 Duomi Music Preferred Shares, respectively, at the consideration of US\$3 million (equivalent to approximately HK\$23.4 million) and US\$1 million (equivalent to approximately HK\$7.8 million) respectively.

The Consideration

The Consideration was determined based on arm's length negotiation between Phoenix Success and Duomi Music with reference to the appraised fair value of 100% of the shareholder equity of Duomi Music of RMB282 million (equivalent to approximately HK\$343.9 million) as at 30 June 2012 as per the Valuation Report prepared by Asset Appraisal. The Consideration will be funded by the Group's internal cash resources.

LETTER FROM GUANGDONG SECURITIES

The trade multiples analyses for the Second Duomi Music Share Subscription

There are two commonly adopted trading multiples analyses which can normally be applied to assess the value of companies, and they are the price to earnings ratio and the price to book ratio. The Duomi Group recorded consolidated net losses and net liabilities during its latest financial year. With this being the case, the trading multiples analyses are rather inapplicable for assessing the Consideration.

The Valuation

According to the Valuation Report, the fair market value of the 100% of the shareholder equity of Duomi Music is RMB282 million (equivalent to approximately HK\$343.9 million) as at 30 June 2012. The Consideration represents a discount to “11.15% of the sum of (i) the Valuation of RMB282 million (equivalent to approximately HK\$343.9 million); and (ii) the total consideration of US\$10,000,000 (equivalent to approximately HK\$78,000,000) for the Second Duomi Music Share Subscription to be paid by all of the Subscribers”.

The Valuation was prepared by Asset Appraisal based on income approach, which focuses on the income-producing capability of the business operation of the Duomi Group. The income approach estimates the future economic benefits and discounts these benefits to its present worth using a discount rate appropriate for the risks associated with realizing those benefits.

For our due diligence purpose, we have reviewed and enquired into Asset Appraisal regarding the methodology of, and basis and assumptions adopted for the Valuation and obtained the relevant supporting documents. Nothing has come to our attention that causes us to doubt the fairness and reasonableness of the assumptions underlying the Valuation and hence the reliability of the Valuation.

In light of that (a) the Valuation was fairly and reasonably determined by Asset Appraisal and the Consideration represents a slight discount to “11.15% of the sum of (i) the Valuation of RMB282 million (equivalent to approximately HK\$343.9 million); and (ii) the total consideration of US\$10,000,000 (equivalent to approximately HK\$78,000,000) for the Second Duomi Music Share Subscription to be paid by all of the Subscribers (the “**Total Consideration**”)” (*Note*); and (b) the subscription prices per Duomi Music Preferred Share to be paid by all the Subscribers (including Huayi and Hina which are Independent Third Parties) are identical, we concur with the Directors that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Note: The discount was calculated based on the below formula:

$$\text{Discount} = \text{Consideration} / [11.15\% \times (\text{Valuation} + \text{Total Consideration})] - 1$$

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The valuation adjustment (the “Valuation Adjustment”)

It is one of the conditions precedent to the Second Duomi Music Share Subscription Agreement that the parties to the Second Duomi Music Share Subscription Agreement to execute the Shareholders Agreement. The Shareholders Agreement has been executed on 17 September 2012.

Pursuant to the terms of the Shareholders Agreement, the Post-Money Valuation shall be adjusted downward (based on the formula as stipulated under the section headed “Valuation adjustment” of the Board Letter) if, by 31 December 2012, Duomi Music’s actual User Targets Accomplishment Rate is less than 90%. For the avoidance of doubt, if the User Targets Accomplishment Rate reaches 90% by 31 December 2012, no adjustment shall be made to the fully-diluted post-money valuation of Duomi Music.

In the event the Actual Fully-Diluted Post-Money Valuation adjusted is less than 70% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000), the Subscribers do not need to pay the Final Installment or any additional consideration, while the shareholding percentage of each Subscriber in Duomi Music (calculated on a fully diluted and as-converted basis) shall be increased as calculated based on the formula as stipulated under the section headed “Valuation adjustment” of the Board Letter.

In the event the Actual Fully-Diluted Post-Money Valuation is 70% or more but less than 90% of the amount of US\$53,800,000 (equivalent to approximately HK\$419,640,000), the Subscribers shall pay the Final Installment but the Final Installment shall be reduced as calculated based on the formula as stipulated under the section headed “Valuation adjustment” of the Board Letter.

Given that the User Targets Accomplishment Rate is determined by, among others, the total number of actual Accumulated Users and Monthly Active Users (being the key parameters of the Valuation Report), we are of the view that the Valuation Adjustment would safeguard the Subscribers under the Second Duomi Music Share Subscription.

The Duomi Music Preferred Shares

Holders of the Duomi Music Preferred Shares shall have the following rights with respect to the conversion of the Duomi Music Preferred Shares into Duomi Music Shares:

- (i) the number of Duomi Music Shares to which a holder shall be entitled upon conversion of any Duomi Music Preferred Share shall be the quotient of the original issue price divided by the applicable conversion price;
- (ii) the holder of any Duomi Music Preferred Share shall have the option to request that all (but not less than all) the Duomi Music Preferred Shares it holds be converted at any time, without the payment of any additional consideration, into fully-paid Duomi Music Shares;

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- (iii) each Duomi Music Preferred Share shall automatically be converted (the “**Automatic Conversion**”), based on the applicable conversion price, without the payment of any additional consideration, into Duomi Music Shares upon the earlier of (i) the closing of the Qualified IPO, or (ii) the date upon which Duomi Music obtains the vote or consent of the holders of at least 80% of the then outstanding Duomi Music Preferred Shares voting together as a single class; and
- (iv) the initial conversion price shall be the original subscription price. The applicable conversion price shall be adjusted from time to time as stipulated in the Shareholders Agreement (the “**Conversion Adjustment**”).

At any time and from time to time beginning from the fourth anniversary of the Completion, each of the shareholders of Duomi Music shall take all necessary actions to cause Duomi Music to redeem all (but not less than all) of the Duomi Music Preferred Shares held by any of the Subscribers (as applicable), upon such Subscriber’s written request to Duomi Music, for a redemption price per share equal to 140% of the subscription price of the Duomi Music Preferred Shares plus all accrued but unpaid dividends (the “**Redemption Rights**”). The redemption price shall be subject to adjustments for the same reasons for adjustment of the conversion price.

If Duomi Music’s pre-money valuation equals to US\$107,600,000 (equivalent to approximately HK\$839,280,000) or more in any further round of financing, merger and acquisition or other exiting opportunities for the Subscribers, the Subscribers’ redemption rights shall be automatically terminated once such further round financing is closed (the “**Termination of Redemption Rights**”); provided, however, that the amount of the further round financing (excluding any amount invested by Phoenix Success and one of the Founders, Mr. Liu, in such further round financing, if any) shall not be less than US\$10,000,000 (equivalent to approximately HK\$78,000,000) if such further round financing is in the form of issuance of additional shares of Duomi Music.

In the event Duomi Music shall declare a distribution, all shareholders of Duomi Music shall be entitled to a proportionate share of any such distribution based on their respective pro rata shares (calculated on a fully diluted and as-converted basis) as at the time of such declaration (or in the event such record date is fixed, as at the close of business on such record date). No dividend shall be paid to other shareholders of Duomi Music unless and until a dividend is first paid in full to the Subscribers.

We concur with the Directors’ view that (i) the above conversion rights would provide flexibility for Phoenix Success to convert the Duomi Music Preferred Shares; (ii) the Conversion Adjustment would safeguard the interest of Phoenix Success from, among others, dilution of its shareholding interest under the holding of the Duomi Music Preferred Shares; (iii) the Redemption Right would provide an alternative for Phoenix Success to realise its investment under the Second Duomi Music Share Subscription at a reasonable rate of return (the Termination of the Redemption Rights is also justified as the pre-money valuation which will trigger the Termination of the Redemption Rights would be equal to US\$107,600,000 (equivalent to approximately HK\$839,280,000), being two times of the

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post-money valuation of the Duomi Group upon completion of the Second Duomi Music Share Subscription); and (iv) the dividend rights would allow priority in dividend distribution to Phoenix Success.

We have enquired into the Directors in relation to the terms of the Automatic Conversion and were advised that a Qualified IPO is defined as an IPO in the United States of America pursuant to an effective registration under the Securities Act or on a reputable stock exchange in Tokyo, London, Hong Kong, Singapore or such reputable stock exchange as may be determined by the Company, with the market capitalisation of at least of US\$107,600,000 (equivalent to approximately HK\$839,280,000) (the “**Target Market Capitalisation**”) and gross proceeds to Duomi Music of not less than 20% of such market capitalisation. Given that (i) the Target Market Capitalisation represents two times of the post-money valuation of the Duomi Group upon completion of the Second Duomi Music Share Subscription; and (ii) it is fair to have the Automatic Conversion upon Duomi Music obtains the vote or consent of the holders of at least 80% of the then outstanding Duomi Music Preferred Shares voting together as a single class (being the majority vote), we concur with the Directors’ view that the terms of the Automatic Conversion are justified.

The board composition

Pursuant to the terms of the Shareholders Agreement, the board of directors of Duomi Music shall consist of five directors. Phoenix Success shall be entitled to nominate two directors of Duomi Music and Fortune Light shall be entitled to nominate one director of Duomi Music, and the other two directors of Duomi Music shall be nominated by unanimous consent of all the three directors nominated by Phoenix Success and Fortune Light out of the management of Duomi Music. Either Phoenix Success or Fortune Light can nominate directors of Duomi Music from its management team subject to both parties’ consent before appointment.

Duomi Music shall invite one Board Observer of each Subscriber that is not entitled to appoint any director of Duomi Music to attend all meetings of the board of directors of Duomi Group and all committees thereof in a non-voting observer capacity, and shall provide the Board Observers concurrently with the members of the board of directors of Duomi Music, and in the same manner notices of such meetings and all materials provided to such members. The Board Observers shall have access to all information granted to any director of Duomi Music for as long as such Subscriber holds the Duomi Music Preferred Shares which, on an as-converted basis, equal to 3% or more of the total ordinary shares of Duomi Music after conversion.

Although Phoenix Success will not obtain control of the board of Duomi Music, the Directors considered that Phoenix Success will have sufficient influence on the management and operation of the Duomi Group.

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Non-competition undertaking

Under the Duomi Music Share Subscription Agreement, the Company and Phoenix Success (the “**Undertaking Parties**”) will undertake and commit that:

- (a) unless otherwise disclosed to Huayi, the Undertaking Parties have never made any equity investment in the business entities which engage in, from time to time, providing online and connected digital music services directly to consumers, in which (i) the pre-money valuation of the entity to be invested equals or more than RMB30,000,000 (equivalent to approximately HK\$36,585,000); (ii) any of the Undertaking Parties will hold of record or beneficially 20% or more of the equity interest in the entity upon the completion of the investment; or (iii) the entity to be invested is an affiliate of Kugou.com, kuwo.cn or xiami.com (who engage in digital music services through providing PC and mobile music software, are the direct competitors of Duomi Music); or (iv) the aggregate amount invested by any of the Undertaking Parties in one single entity exceeds RMB10,000,000 (equivalent to approximately HK\$12,195,000) (the “**Restricted Investment**”);
- (b) the Undertaking Parties will issue a written notice to the Duomi Music and Huayi before making any Restricted Investment during the period of time between the date of the undertaking and one year after the date on which Mr. Liu ceases to own any equity securities of any member of the Duomi Group;
- (c) Duomi Music and Huayi shall be entitled but not obliged to invest in such Restricted Investment under the same terms (“**Co-investment**”). The Undertaking Parties shall use their best efforts to coordinate with any other third parties to procure the foresaid Co-investment per request by Duomi Music and Huayi; and
- (d) the Undertaking Parties shall procure all of their respective affiliates to comply with the undertakings and commitment.

As advised by the Directors, in view of the Group’s leading market position in digital music market and its professional knowledge and insight on the sector, the non-competition undertaking is aimed to protect Duomi Music and the Subscribers other than Phoenix Success. In addition, given Phoenix Success’ substantial shareholding interest in Duomi Music, the interest of the Group and Duomi Music are closely aligned. The non-competition undertaking would discourage the divergence of resources, personnel, and capital in other investment in competitive company of the Duomi Group.

Possible financial effects of the Second Duomi Music Share Subscription

Upon conversion of the Duomi Music Preferred Shares in full, Phoenix Success will hold a total of 50,247,228 Duomi Music Shares (representing approximately 40.44% of the share capital of Duomi Music as enlarged by the Second Duomi Music Share Subscription assuming exercise of the options under the existing ESOP in full). Accordingly, Duomi Music will remain as an associated company of the Company.

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Effect on net asset value (“NAV”)

As extracted from the 2012 Interim Report, the unaudited consolidated NAV of the Group was approximately RMB535.68 million as at 30 June 2012. The Directors confirmed upon Completion, the consolidated NAV of the Group would remain unchanged.

Effect on gearing and working capital

As advised by the Company, the Group’s gearing ratio (calculated as the total borrowings over the total assets) was approximately 5.96% as at 30 June 2012. The Directors expected that the gearing ratio of the Group would remain unchanged upon Completion.

Moreover, as confirmed by the Directors, since the Consideration will be funded by the Group’s internal cash resources, the Second Duomi Music Share Subscription will reduce the Group’s working capital.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Group will be upon Completion.

RECOMMENDATION

Having taken into account the above factors and reasons, we are of the opinion that (i) the terms of the Second Duomi Music Share Subscription Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Second Duomi Music Share Subscription, although is not in the ordinary and usual course of business, is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(I) Directors and chief executive of the Company

As at the Latest Practicable Date, the interests or short position of the Directors and the chief executives of the Company and each of their respective associates, in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are deemed or taken to have under such provisions of the SFO); or (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

Name of Director	Nature of interest	Number of Shares held			Approximate percentage of interest in the Company's issued share capital
		Ordinary Shares	Underlying Shares (under equity derivatives of the Company)	Total	
Mr. Liu	Founder of trust <i>(Note)</i>	167,405,954	Nil	169,783,395	35.65%
	Beneficial owner	1,922,000	455,441		
Mr. Lu Bin	Beneficial owner	Nil	2,340,000	2,340,000	0.49%

Note: Mr. Liu is the founder of a family trust which is deemed under SFO to be interested in all the shares held by Ever Novel Holdings Limited (“**Ever Novel**”) and Prime Century Technology Limited (“**Prime Century**”) in the Company. As at the Latest Practicable Date, Prime Century directly held 122,371,905 Shares and Ever Novel directly held 45,034,049 Shares.

(II) Long positions in associated corporations of the Company

Shenzhen Huadong Feitian Network Development Co., Ltd. (“Huadong Feitian”)

Name of Director	Nature of interest	Long positions in the registered capital (RMB)	Approximate percentage of interest in the associated corporation’s registered capital
Mr. Liu	Beneficial owner	21,510,000	75%

Note: Huadong Feitian is a limited liability company incorporated in the PRC whose financial results are, through a number of structure contracts, consolidated into the financial statements of the Company and therefore an associated corporation of the Company.

Save as disclosed, as at the Latest Practicable Date, none of the Directors, chief executives and their respective associates has any interest or short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO); or are required, pursuant to Section 352 of the SFO to be entered into the register referred to therein; or are required, pursuant to the Model Code of Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

(II) Substantial Shareholders

So far as is known to the Directors and the chief executives of the Company, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at a general meeting of any member of the Group, or held any option in respect of such capital:

Name of substantial Shareholder	Nature of interest	Long positions in the Shares		Approximate percentage of interest in the Company’s issued share capital
HSBC International Trustee Limited	Trustee (other than a bare trustee) <i>(Note 1)</i>	189,035,954	189,035,954	39.69%

Name of substantial Shareholder	Nature of interest	Long positions in the Shares		Approximate percentage of interest in the Company's issued share capital
River Road Investment Limited	Interest in controlled corporation (Note 1)	167,405,954	167,405,954	35.15%
Knight Bridge Holdings Limited	Interest in controlled corporation (Note 1)	167,405,954	167,405,954	35.15%
Ever Novel	Interest in controlled corporation Beneficial Owner (Note 1 & 2)	122,371,905 45,034,049	167,405,954	35.15%
Prime Century	Beneficial Owner (Note 1 & 2)	122,371,905	122,371,905	25.69%

Notes:

- (1) HSBC International Trustee Limited (“**HSBC International**”) is the trustee of family trusts which, through intermediate holding companies (including but not exclusively River Road Investment Limited, Knight Bridge Holdings Limited, Ever Novel and Prime Century), exercise or control the exercise of one third or more voting power at the general meetings of such companies and is deemed under the SFO to be interested in the Shares held by such companies (189,005,954 Shares in total). The rest 30,000 Shares is held by HSBC International for its other clients.
- (2) As at the Latest Practicable Date, Prime Century directly held 122,371,905 Shares and Ever Novel directly held 45,034,049 Shares. Ever Novel was entitled to exercise or control the exercise of one third or more of the voting power at the general meetings of Prime Century and was deemed to be interested in the 122,371,905 Shares held directly by Prime Century.

Save as disclosed herein, as at the Latest Practicable Date, there was no other person so far as is known to the Directors and chief executives of the Company, other than a Director or chief executive of the Company has an interest or a short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. SERVICE CONTRACT

Each of the Directors has entered into a service contract or an appointment letter (as the case may be) with the Company for an initial fixed term of three years commencing from their appointment or re-designation, subject to retirement by rotation and re-election at annual general meetings of the Company pursuant to its articles of association, and will continue thereafter until terminated by (i) in cases of executive Directors and independent

non-executive Directors, not less than three months' notice in writing served by either party on the other or payment in lieu of such notice, or (ii) in case of non-executive Directors, not less than one month's notice in writing by the non-executive Director or the written notice issued by the Company with immediate effect.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors nor proposed Directors had any existing or proposed service contracts with any member of the Group which will not expire or is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENT SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date:

- (a) none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2011 (being the date to which the latest audited financial statements of the Group were made up) been acquired or disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to any member of the Group; and
- (b) none of the Directors was materially interested in any contract or arrangement subsisting as at the date of this circular and which is significant in relation to the business of the Group as a whole.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, since 31 December 2011, being the date to which the latest audited financial statements of the Group were made up, the Directors confirmed that the Group has recorded a loss for the six months ended 30 June 2012 (while for the 2011, the Group was making profit for the year), due to the continuing negative impact brought by the series of measures implemented to the Mobile Value-Added Service industry by related industry management divisions and mobile operators in the PRC since 2010, while the new business of the Company is still in investment stage, which has an adverse change in the financial position of the Group. Save as disclosed above, the Directors were not aware of any other material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest audited financial statements of the Group were made up.

6. COMPETING INTEREST

Reference is made to the announcements of the Company dated 19 September 2011, Mr. Liu, as an executive Director and Controlling Shareholder, through Fortune Light, owns 41.57% shares of Duomi Music.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors and their respective associates had any direct or indirect interest in a business which competes or may compete with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder).

7. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their advice and recommendation which are included in this circular:

Name	Qualification
Guangdong Securities Limited	a licensed corporation to carry out type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Guangdong Securities has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, report and/or reference to its name or opinion in the form and context in which it appears.

As at the Latest Practicable Date, Guangdong Securities was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Guangdong Securities did not have any direct or indirect interest in any assets which had since 31 December 2011 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

- (a) The registered address of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (b) The principal place of business of the Company in Hong Kong is at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong.
- (c) The share registrar and transfer agent of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
- (d) The joint company secretaries of the Company are Ms. Ho Yip, Betty ("**Ms. Ho**") and Ms. Gao Keying ("**Ms. Gao**"). Ms. Ho, who graduated from the University of Toronto in 1993, with a Bachelor's degree in Commerce, was admitted as a

member of the American Institute of Certified Public Accountants in 1997 and is a member of the Hong Kong Institute of Certified Public Accountants Ms. Gao joined the Group in 2004 and holds a master's degree in business administration from Tianjin University of Commerce and bachelor's degree in statistics from Zhengzhou University.

- (e) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Suites 06-12, 33/F., Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong from the date of this circular up to and including the date of the EGM:

- (i) the memorandum of association and articles of association of the Company;
- (ii) the Second Duomi Music Share Subscription Agreement;
- (iii) the annual report of the Company for the two financial years ended 31 December 2011 and the interim report of the Company for the six months ended 30 June 2012;
- (iv) the written consent as referred to in the paragraph under the heading "Experts and consents" in this appendix;
- (v) the letter from the Independent Board Committee as set out on page 32 of this circular;
- (vi) the letter from Guangdong Securities as set out from pages 33 to 46 of this circular;
- (vii) all the agreements/contracts as referred to in this circular; and
- (viii) this circular.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the “**Meeting**”) of A8 Digital Music Holdings Limited (the “**Company**”) will be held at Suites 903-905, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong at 10:30 a.m. on 11 December 2012, for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the subscription agreement dated 17 September 2012 (the “**Second Duomi Music Share Subscription Agreement**”), a copy of which has been produced to this meeting marked “A” and signed by the chairman of the meeting for the purposes of identification, and the terms and conditions thereof and the transactions contemplated thereunder and the implementation thereof be and are hereby confirmed, ratified and approved; and
- (b) the Board be and is hereby authorised to take all such actions and sign all documents, agreements or deeds on behalf of the Company as the board shall in its absolute discretion as it considers necessary or desirable to implement and give effect to the Second Duomi Music Share Subscription Agreement and the transactions contemplated thereunder.”

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

Hong Kong, 20 November 2012

NOTICE OF EGM

Head office and principal place of business in Hong Kong:
Suites 06-12
33/F., Shui On Centre
6-8 Harbour Road
Wanchai, Hong Kong

Notes:

- (a) Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (b) In the case of joint holders of a share, either in person or by proxy, in respect of such shares as if he/she were solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand on the register of members of the Company in respect of the joint holding.
- (c) To be effective, a form of proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof. Delivery of the form of proxy shall not preclude a member of the Company from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (d) All the resolutions at the Meeting will be taken by poll pursuant to the Listing Rules and the results of the poll will be published on the respective websites of the Stock Exchange and the Company in accordance with the Listing Rules.

As at the date of this notice, the board of Directors comprises:

- (1) executive Directors namely Mr. Liu Xiaosong and Mr. Lu Bin; and
- (2) independent non-executive Directors namely Mr. Chan Yiu Kwong, Mr. Zeng Liqing and Ms. Wu Shihong.