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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)

A8 Digital Music Holdings Limited Announces 2013 Annual Results

(27 March 2013, Hong Kong) **A8 Digital Music Holdings Limited** (“A8 Music” or the “Company”, stock code: 0800) announces the annual results of the Company for the financial year ended 31 December 2013 (“the Year” or “2013”).

Results Highlights

Year ended 31 December

	<u>2013</u> RMB'000	<u>2012</u> RMB'000	<u>Change</u>
Revenue	189,736	345,093	- 45%
Gross profit	62,160	116,282	- 46.5%
Profit/Loss before tax	21,220	(26,684)	179.5%
Profit/Loss attributable to owners of the Company	9,820	(29,868)	132.9%
	RMB	RMB	116%
EPS(basic)	<u>0.008</u>	<u>(0.05)</u>	

Financial Summary & Operational Performance

For the year ended 31 December 2013, the revenue of the Group amounted to approximately RMB189.7 million, representing a decrease of 45% as compared with 2012 (2012: approximately RMB345.1 million). The decline in revenue was mainly due to the disposal of traditional wireless-added service; meanwhile, though the new business has achieved some progress, the impact for the whole year of 2013 is very limited. The profit attributable to the owners of the Company amounted to approximately RMB9.8 million (2012: loss of approximately RMB29.9 million).

During the Year ended 31 December 2013,

1. The gross profit of the Group amounted to approximately RMB 62.2 million, representing a decrease of approximately 46.5% as compared with 2012 (2012: approximately RMB 116.3 million). The overall gross profit margin of the Group decreased from 33.7% in 2012 to 32.8% in 2013. The decrease was mainly due to product mix which resulted in higher revenue share with mobile operators.
2. As at 31 December 2013, cash and bank balances and highly liquid short term assets of the Group including cash and cash equivalents, restricted cash, time deposits with original maturity of more than three months and investments at fair value through profit or loss amounted to approximately RMB 475.9million (2012: approximately RMB387.2 million). Approximately RMB360.1 million, or approximately 76% of the Group's cash and cash equivalents, was denominated in RMB.

Business Review

The Group disposed some traditional wireless value-added business since the end of 2012, and has been shifting our strategic focus on the field of digital music and mobile Internet. Through two-year exploration in 2012 and 2013, the Group positioned itself to build up a new digital entertainment group including music-based entertainment platform and prime game operating platform, in which the products and operations would be the core supported with content production, channel cooperation, market promotion and monetization.

The music industry chain

In 2013, the Group continued to strengthen and consolidate the music business from

contents, channels and products, and speeded up the building of music platform.

For music contents, the Group continued to make efforts in UGC music contents, composers program and accumulation of copyrights. For music channels, the Group actively collaborated with carriers and mobile Internet channels to activate ringtone users, and boost revenue from wireless music. For the music products, the Group actively launched the mobile music applications and explored the connection between the UGC content and the applications, to provide music services to users and explore business models.

In 2013, Duomi Music invested by the Group posted a strong growth and made certain progress in exploring business models and monetization. Currently, the accumulated number of users of Duomi Music exceeded 200 million. Additionally, Duomi Music expedited its monetization by feasible business model and achieved remarkable progress. The fixed rate of music data traffic program with China Unicom subscribers has made sound effect and was still in upward trend either in number of subscriptions or in revenue. In addition, Duomi Music is also exploring mobile advertisement model with the mainstream of brand advertisement shifted from the single effect advertisement, compounded with rapid increase in advertisement revenue.

Mobile Internet

In 2013, in light of the rapid growth of the mobile game market, combined with our historical operational experiences and access to billing resources, the Group commenced to be the agency of publishing mobile games. The Group carried out the mobile game publishing business through a new brand of Gaming between Fingers (“指遊方寸”) and subsequently published the Android version of two Internet games PaPa Three Kingdoms (“啪啪三國”) and One Up on War (“一將成名”) and four single-player games. Of which, “PaPa Three Kingdoms” is an excellent game product. With the efforts of the game operating team, this product launched on 7 November 2013 successfully and ranked in Top Ten for 360 Android Mobile Internet Games Revenue Billboard in November in its first debut month, and went up to No. 7 in December.

Business Outlook for 2014

Looking into 2014, the mission of the Group is to build a music-based entertainment platform and game operation platform, ensuring the healthy and sustainable business models for monetization.

Music-based entertainment platform

With the development of licensed music, music contents and copyright operation has become an important base for building music and entertainment platform. The Group will continue to accumulate music contents through existing and innovative approaches, including the development of A8.com platform and model innovation; in the meantime, the Group will jointly launch and set up music culture industry fund with Beijing Culture Creative Industry Fund, and focus more on contents, production and copyrights operation in an effort to “attract more external resources working for the Group”.

At the same time, the Group will continue to sustain the operations in traditional business and strengthen the cooperation with carriers and other partners.

Regarding music products, in order to enhance its competitive edge, the Group will centralize resources to focus on the development of content operation and strengthen the close cooperation with Duomi. Duomi Music will differentiate itself by tuning up products, users and business models in 2014.

In addition, the National Music Industry Base - a8 Building has completed the construction and began the commercialization. The Group will build a Live House theatre and cultivate the content incubator, to make continuous and steady cash flow for the Group.

Prime games operating platform

Based on the breakthrough made in mobile games business in 2013, the Group will expedite to strengthen mobile games publishing business and build “指遊方寸” as a prime game operating platform in 2014. Meanwhile, through investment in Qingsong Fund, the Group will have more chance to find and explore more quality games for publishing.

In 2014, the Group will launch 4-5 mobile Internet games with high quality and currently two have been chosen, including “眾神之王”. The Group will work closely with game developers in the early stage of game design, with the core goal of meeting players’ needs. We hope to gain a stronger foothold in the competition through the lean operation and multidimensional marketing and promotion, so as to achieve a place in the Top Ten of the mobile games publishing market. In the meantime, the Group will look for mergers and acquisition opportunities in upstream game

developer and in downstream channels by which we may enhance sustainable competitive strength.

A8 Music has gradually built up its competitive advantages in digital music and mobile game market. The Group will focus on providing value to users, and take this as our philosophy to support the rapid and sustainable development in the future and build a leading new media group in china. The Board and the management will work more closely with all staffs for the sustainable development of the Group.

About A8 Digital Music Holdings Limited

Founded in 22 May 2000, and listed on the Main Board of the Stock Exchange with Stock Code: 0800.HK on 12 June 2008. A8 Music is transfer the model from leading digital music company to a new digital entertainment group including music-based entertainment platform and prime game operating platform, in which the products and operations would be the core supported with content production, channel cooperation, market promotion, and monetization.

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