
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer 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 (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of the Company.



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)

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE SUBSCRIPTION OF
CONVERTIBLE NOTE ISSUED BY DUOMI MUSIC
AND
(2) NOTICE OF EXTRAORDINARY GENERAL MEETING**

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



Donvex Capital Limited

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 6 to 33 of this circular. A letter from the Independent Board Committee is set out on page 34 of this circular. A letter from Donvex Capital Limited, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out from pages 35 to 51 of this circular.

A notice convening the EGM to be held at 10:30 a.m. on 18 June 2014 at Suites 903-905, 9/F Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong is set out from pages 76 to 77 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.

30 May 2014

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DEFINITIONS

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

“Announcement”	the announcement dated 9 April 2014 in relation to, among other things, the Subscription and the transactions contemplated thereunder
“Associate”	has the meaning ascribed to the term under the Listing Rules
“Beijing Caiyun”	Beijing Caiyun Online Technologies Co. Ltd. (北京彩雲在線技術開發有限公司), a company incorporated in the PRC with limited liability
“Board”	the board of Directors
“Business Day”	a day, other than a Saturday and a day on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m., on which licensed banks are open for general banking business in Hong Kong throughout their normal business hours
“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)
“Connected Person”	has the meaning ascribed to the term under the Listing Rules
“Conversion Date”	the date on which Phoenix Success serves the Conversion Notice on Duomi Music to exercise its conversion rights under the First Tranche Note or the Second Tranche Note (as the case may be)
“Conversion Notice”	a written notice served by Phoenix Success which proposes to exercise all or any part of its conversion rights under the Convertible Note
“Conversion Period”	the period commencing from the date which shall fall on the first anniversary of the date of issue of the First Tranche Note or the Second Tranche Note (as the case may be) and ending on the Maturity Date

DEFINITIONS

“Conversion Shares”	new Duomi Shares to be issued and allotted by Duomi Music upon the exercise of the conversion rights by Phoenix Success under the First Tranche Note or the Second Tranche Note (as the case may be)
“Convertible Note”	the First Tranche Note and the Second Tranche Note
“Director(s)”	the director(s) of the Company
“Duomi Group”	Duomi Music and its subsidiaries
“Duomi Shares”	ordinary shares of US\$0.0001 each in the capital of Duomi Music
“Duomi Music”	Duomi Music Holding Limited (多米音樂控股有限公司), a company incorporated in the Cayman Islands on 20 December 2011
“EGM”	the extraordinary general meeting of the Company to be convened and held on 18 June June 2014 to consider and approve, among other things, the Subscription Agreement and the transactions contemplated thereunder
“ESOP”	the employee share option plan adopted by Duomi Music
“First Tranche Note”	the convertible note(s) in the aggregate principal amount of US\$14,730,000 to be issued by Duomi Music in the first tranche pursuant to the Subscription Agreement
“Fortune Light Investment”	Fortune Light Investment Limited (福耀投資有限公司), a company incorporated and existing under the laws of the British Virgin Islands and wholly owned by Mr. Liu
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Huayi Brothers”	Huayi Brothers International Investment Ltd, a company incorporated and existing under the laws of the British Virgin Islands, being a holder of the Preferred A Shares

DEFINITIONS

“Independent Board Committee”	an independent board committee of the Company comprising Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Song Ke, being all independent non-executive Directors, to advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder
“Independent Financial Adviser”	Donvex Capital Limited, a corporation licensed to carry out business in Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than those who are required under the Listing Rules to abstain from voting on the resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder
“Independent Third Party”	any person(s) or company(ies) and their respective ultimate beneficial owner(s) whom, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons in accordance with the Listing Rules
“Latest Practicable Date”	27 May 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Material Adverse Change”	material adverse change (in the opinion of Phoenix Success) to the financial condition, results of operations, assets, regulatory status, business or prospects of the Duomi Group
“Maturity Date”	the date of repayment which shall fall on the third anniversary of the date of issue of the First Tranche Note or such other date as Phoenix Success and Duomi Music may agree in writing, and such date of repayment shall apply to both of the First Tranche Note and the Second Tranche Note

DEFINITIONS

“Mr. Liu”	Mr. Liu Xiaosong, an executive Director and a Substantial Shareholder of the Company
“percentage ratios”	has the meaning ascribed to the term in Chapter 14 of the Listing Rules
“Phoenix Success”	Phoenix Success Limited, a company incorporated in the 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
“Preferred A Shares”	the series A convertible, redeemable and participating preferred shares in the capital of Duomi Music
“RMB”	Renminbi, the lawful currency of the PRC
“Second Tranche Note”	the convertible note(s) in the aggregate principal amount of US\$8,180,000 to be issued by Duomi Music in the second tranche pursuant to the Subscription Agreement
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HKD0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Convertible Note
“Subscription Agreement”	the subscription agreement entered into between Phoenix Success and Duomi Music on 9 April 2014 in relation to the Subscription
“Substantial Shareholder”	has the meaning ascribed to the term under the Listing Rules
“U.S.”	the United States of America
“US\$” or “US Dollar”	US dollar, the lawful currency of the U.S.

DEFINITIONS

“2014 Reviewed Statements”	the reviewed financial statements of Duomi Music comprising a balance sheet and a profit and loss account and a cash flow statement for the accounting reference period ending on 31 December 2014 including the notes thereto and the review report thereon, as prepared by the auditors of Duomi Music
“2014 Turnover Forecast”	the forecasted turnover of Duomi Music (including the prime operating revenue but excluding the revenue from the software development, government grant and other non-operation revenue) at US\$11,000,000 (equivalent to approximately HK\$85,800,000) for the accounting reference period ending on 31 December 2014
“2015 Audited Statements”	the audited financial statements of Duomi Music comprising a balance sheet and a profit and loss account and a cash flow statement for the accounting reference period ending on 31 December 2015 including the notes thereto and the auditors’ report thereon, as prepared by the auditors of Duomi Music
“2015 EBIT”	earnings before interest (including but not limited to imputed interest expenses incurred by preferred shares and other financial instruments in compliance with generally accepted accounting principles) and tax, excluding income and expenditure from unusual, non-recurring or discontinued activities such as share options, convertible bonds and impairment or write-offs, of Duomi Music for the accounting reference period ending on 31 December 2015
“2015 Turnover Forecast”	the forecasted turnover of Duomi Music (including the prime operating revenue but excluding the revenue from the software development, government grant and other non-operation revenue) at US\$23,780,000 (equivalent to approximately HK\$185,484,000) for the accounting reference period ending on 31 December 2015
“%”	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 RMB0.801 = HK\$1 for the purpose of illustration. Such exchange rates are for illustration purpose only and do not constitute representations that any amount in HK\$, RMB or US\$ have been, could have been or may be converted at such rate.

The English transliteration of the Chinese name in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English name of such Chinese name.

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 (*Chairman*)

Mr. Lu Bin

Independent non-executive Directors:

Mr. Chan Yiu Kwong

Ms. Wu Shihong

Mr. Song Ke

Registered Office:

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Grand Cayman, KY1-1111

Cayman Islands

Head Office:

23/F, A8 Music Building

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Nanshan District, Shenzhen

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

30 May 2014

To the Shareholders,

Dear Sir or Madam,

**(1) DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE SUBSCRIPTION OF
CONVERTIBLE NOTE ISSUED BY DUOMI MUSIC**

AND

(2) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to (i) the Announcement, in which the Board announced that on 9 April 2014 (after trading hours), Phoenix Success, a wholly owned subsidiary of the Company, and Duomi Music entered into the Subscription Agreement, pursuant to which

LETTER FROM THE BOARD

Duomi Music has conditionally agreed to issue, and Phoenix Success has conditionally agreed to subscribe for, the Convertible Note for cash consideration in an aggregate principal amount of US\$22,910,000 (equivalent to approximately HK\$178,698,000) in two tranches, and (ii) the announcement dated 7 May 2014 in relation to the delay in the despatch of this circular.

The Independent Board Committee has been established by the Company to advise the Independent Shareholders in respect of the Subscription Agreement and the transactions contemplated thereunder. The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to provide you with, among other things, (i) further details of the Subscription Agreement and the transactions contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders in respect of the Subscription Agreement; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement; and (iv) a notice to the Shareholders for the convening of the EGM.

THE SUBSCRIPTION OF THE CONVERTIBLE NOTE

The Subscription Agreement

Date : 9 April 2014

Issuer : Duomi Music

Subscriber : Phoenix Success

Phoenix Success shall subscribe for, and Duomi Music shall issue, the First Tranche Note in the aggregate principal amount of US\$14,730,000 (equivalent to approximately HK\$114,894,000).

Phoenix Success shall subscribe for, and Duomi Music shall issue, the Second Tranche Note in the aggregate principal amount of US\$8,180,000 (equivalent to approximately HK\$63,804,000).

The consideration for the Subscription and the terms and conditions set out in the Subscription Agreement were determined after arm's length negotiation between Phoenix Success and Duomi Music after taking into account a number of factors, including but not limited to (i) the Directors' positive view on the prospects of the digital music industry in the PRC; (ii) the business nature and the prospects of Duomi Music; and (iii) the fair market value of business enterprise of Duomi Music as at 31 December 2013 to be RMB312,000,000 (equivalent to approximately HK\$389,500,000) pursuant to the valuation report (the "**Valuation Report**") dated 10 April 2014 prepared by Grant Sherman Appraisal Limited, an independent valuer engaged by the Company to conduct a valuation on Duomi Music.

LETTER FROM THE BOARD

Conditions Precedent to the First Tranche Note

Completion of the First Tranche Note is conditional upon, among others:

- (a) the Independent Shareholders having, by ordinary resolution duly passed at the EGM, approved the entering into, implementation and completion of the Subscription Agreement;
- (b) all other consents which are required or appropriate for the entering into or implementation or completion of the Subscription Agreement by Phoenix Success or for the performance of its obligations thereunder having been obtained, including, without limitation, the consents of the shareholders and the board of directors of Phoenix Success and applicable regulatory bodies;
- (c) Phoenix Success having been satisfied with the results of its due diligence investigations on the Duomi Group;
- (d) there having been delivered to Phoenix Success such resolutions, consents, authorities and documents relating to the issue of the Convertible Note, as Phoenix Success may require;
- (e) at the date of completion of the First Tranche Note, there shall not have occurred any Material Adverse Change; and
- (f) at the date of completion of the First Tranche Note, (i) the warranties given by Duomi Music remaining true and accurate and not misleading in all material respects; and (ii) Duomi Music shall have performed all of its obligations thereunder.

Duomi Music undertakes to Phoenix Success to use its best endeavours to procure that the conditions precedent set out in item (d) above is fulfilled as soon as practicable and in any event not later than 31 December 2014 (or such other date as Duomi Music and Phoenix Success may agree in writing), except that the conditions precedent specified in items (e) and (f) above shall be fulfilled simultaneously upon completion of the First Tranche Note.

If the conditions precedent to the First Tranche Note have not been fulfilled or waived on or before 31 December 2014 (or such other date as may be agreed between Phoenix Success and Duomi Music in writing), the Subscription Agreement will lapse and become null and void; and Phoenix Success and Duomi Music will be released from all obligations under the Subscription Agreement, save for liabilities for any antecedent breaches thereof.

LETTER FROM THE BOARD

Conditions Precedent to the Second Tranche Note

Completion of the Second Tranche Note is conditional upon, among others:

- (a) completion of the First Tranche Note;
- (b) fulfillment of conditions (a) to (c) under the paragraph headed “Conditions Precedent to the First Tranche Note” above;
- (c) the actual turnover (including the prime operating revenue but excluding the revenue from the software development, government grant and other non-operation revenue) of Duomi Music for the accounting reference period ending on 31 December 2014 as recorded in the 2014 Reviewed Statements is equal to or higher than 80% of the 2014 Turnover Forecast;
- (d) there having been delivered to Phoenix Success such resolutions, consents, authorities and documents relating to the issue of the Convertible Note, as Phoenix Success may require;
- (e) at the date of completion of the Second Tranche Note, there shall not have occurred any Material Adverse Change; and
- (f) at the date of completion of the Second Tranche Note, (i) the warranties given by Duomi Music remaining true and accurate and not misleading in all material respects; and (ii) Duomi Music shall have performed all of its obligations thereunder.

Duomi Music undertakes to Phoenix Success to use its best endeavours to procure that the conditions precedent set out in items (a), (c) and (d) above are fulfilled as soon as practicable and in any event not later than 30 June 2015 (or such other date as Duomi Music and Phoenix Success may agree in writing), except that the conditions precedent in items (e) and (f) above shall be fulfilled simultaneously upon completion of the Second Tranche Note.

In accordance with the Subscription Agreement, Phoenix Success may at any time waive by a notice in writing any or all of the conditions precedent to the First Tranche Note and the Second Tranche Note either in whole or in part, except that the conditions precedent to the First Tranche Note set out in items (a) and (b) under the paragraph headed “Conditions Precedent to the First Tranche Note” above and the condition precedent to the Second Tranche Note set out in items (b) under the paragraph headed “Conditions Precedent to the Second Tranche Note” above cannot be waived by Phoenix Success.

The Directors consider that the conditions precedent to the First Tranche Note and the Second Tranche Note, other than those which cannot be waived by Phoenix Success under the Subscription Agreement mentioned above, constitute the substance of the Subscription, and are material to the interest of Phoenix Success under the Subscription Agreement. As a result, as at the Latest Practicable Date, Phoenix Success had no intent to waive any of the conditions precedent to the First Tranche Note and the Second Tranche Note.

LETTER FROM THE BOARD

Principal Terms of the Subscription Agreement

The principal terms of the Subscription Agreement are summarized below.

Principal Amount : the aggregate of the principal amount of US\$14,730,000 (equivalent to approximately HK\$114,894,000) for the First Tranche Note and the principal amount of US\$8,180,000 (equivalent to approximately HK\$63,804,000) for the Second Tranche Note

Conversion : Phoenix Success will have the right, on any Business Day during the Conversion Period, to convert the First Tranche Note or the Second Tranche Note (as the case may be) in whole or in part thereof into the Conversion Shares at such conversion price determined in accordance with the terms thereof.

The number of Conversion Shares to be issued on conversion of the First Tranche Note or the Second Tranche Note (as the case may be) will be determined by dividing the principal amount of the First Tranche Note or the Second Tranche Note (as the case may be) by the conversion price.

Issuance of the Conversion Shares : Notwithstanding the exercise of the conversion rights by Phoenix Success, Duomi Music shall not issue any Conversion Shares without the prior written consent of the holders of at least 80% of the Preferred A Shares, including the consent of Huayi Brothers (the “Required Consent”), and Duomi Music shall issue a written notice in respect of such proposed issuance to and secure the required consent from the holders of the Preferred A Shares within 5 Business Days upon the Conversion Date; provided that, after the expiry of 185 days from the Conversion Date, the proposed issuance shall cease to be subject to and bound by such prior consent requirement, and Duomi Music shall, at the request of Phoenix Success who shall be satisfied that there have not occurred any Material Adverse Change (the “Phoenix Success Request”), be obliged to issue the relevant Conversion Shares to Phoenix Success (which date of proposed issuance shall be determined under the First Tranche Note or the Second Tranche Note (as the case may be) and shall not, in any event, be earlier than the date of issuance of the 2015 Audited Statements upon which the conversion price of the Conversion Shares shall be determined), in

LETTER FROM THE BOARD

which case the holders of the Preferred A Shares shall be deemed to have irrevocably and unconditionally consented to such proposed issuance in all respects and the Required Consent shall be deemed to have been secured.

The Conversion Shares shall be allotted and issued in the name of Phoenix Success; and valid share certificate(s) thereof shall be delivered to Phoenix Success at the address specified in the Conversion Notice as soon as practicable but in any event no later than 3 Business Days from the date on which the Required Consent is secured (the “Consent Date”) or the date on which the Phoenix Success Request is made (the “Request Date”) should such address be a Hong Kong address or 5 Business Days from the Consent Date or the Request date (as the case may be) should such address be one outside Hong Kong.

If the Consent Date or the Request Date (as the case may be) falls on a day prior to the date of issuance of the 2015 Audited Statements, the Conversion Price shall not be determined until the date of issuance of the 2015 Audited Statements, and the Conversion Shares shall be allotted and issued in the name of Phoenix Success; and valid share certificate(s) thereof shall be delivered to Phoenix Success at the address specified in the Conversion Notice as soon as practicable but in any event no later than 3 Business Days from the date of issuance of the 2015 Audited Statements should such address be a Hong Kong address or 5 Business Days from the date of issuance of the 2015 Audited Statements should such address be one outside Hong Kong.

- Conversion Price : Subject to adjustments, the conversion price of the Conversion Shares shall be determined as follows:
- (i) if the 2015 EBIT as recorded in the 2015 Audited Statements is lower than zero, the conversion price shall be US\$0.368 (equivalent to approximately HK\$2.870);
 - (ii) if the 2015 EBIT as recorded in the 2015 Audited Statements is equal to or higher than zero but lower than RMB15,000,000 (equivalent to approximately HK\$18,726,591), the conversion price shall be US\$0.433 (equivalent to approximately HK\$3.377); and

LETTER FROM THE BOARD

- (iii) if the 2015 EBIT as recorded in the 2015 Audited Statements is equal to or higher than RMB15,000,000 (equivalent to approximately HK\$18,726,591), the conversion price shall be US\$0.466 (equivalent to approximately HK\$3.635).

Conversion Shares : Assuming that save for the issue of the Conversion Shares, there will be no change to the issued share capital of Duomi Music from the Latest Practicable Date up to (and including) the date of issue of such Conversion Shares resulting from the exercise in full of the conversion rights by Phoenix Success:

- (i) a total of up to 62,297,261 Conversion Shares will be allotted and issued, representing approximately 34.63% of the issued share capital of Duomi Music as enlarged by the allotment and issue of such Conversion Shares (assuming after full conversion of preferred shares and no option has been exercised), assuming that the conversion rights in relation to the total principal amount of the Convertible Note are exercised in full at the conversion price of US\$0.368 per Conversion Share;
- (ii) a total of up to 52,943,848 Conversion Shares will be allotted and issued, representing approximately 31.05% of the issued share capital of Duomi Music as enlarged by the allotment and issue of such Conversion Shares (assuming after full conversion of preferred shares and no option has been exercised), assuming that the conversion rights in relation to the total principal amount of the Convertible Note are exercised in full at the conversion price of US\$0.433 per Conversion Share; and
- (iii) a total of up to 49,182,048 Conversion Shares will be allotted and issued, representing approximately 29.49% of the issued share capital of Duomi Music as enlarged by the allotment and issue of such Conversion Shares (assuming after full conversion of preferred shares and no option has been exercised), assuming that the conversion rights in relation to the total principal amount of the Convertible Note are exercised in full at the conversion price of US\$0.466 per Conversion Share.

LETTER FROM THE BOARD

- Ranking of the Conversion Shares : The Conversion Shares shall rank pari passu with all other Duomi Shares in issue as at the date on which the relevant Conversion Shares are issued and be entitled to all dividends, bonus and other distributions the record date of which falls on a date on or after the date on which the relevant Conversion Shares are issued.
- Deposit : Phoenix Success undertakes to Duomi Music to deposit a principal amount of US\$3,270,000 (equivalent to approximately HK\$25,506,000) at a deposit account maintained by Duomi Music within 5 Business Days after the date of the Announcement. As at the Latest Practicable Date, Phoenix Success has complied with such undertaking and paid the deposit in full to Duomi Music within 5 Business Days after the date of the Announcement.
- If the conditions precedent to completion of the First Tranche Note are not satisfied or waived by the specified date, or Phoenix Success validly terminates the Subscription Agreement on or before the date of completion of the First Tranche Note, Duomi Music will immediately refund the deposit and accrued interest to Phoenix Success.
- The deposit and accrued interest shall be applied by Duomi Music to settle the subscription price of the First Tranche Note in part once Duomi Music has complied with its obligations under the Subscription Agreement on or before the date of completion of the First Tranche Note.
- Maturity : Duomi Music shall repay to Phoenix Success 100% of the principal amount outstanding under the Convertible Note together with all interest accrued thereon on the Maturity Date.
- Interest : The First Tranche Note or the Second Tranche Note (as the case may be) will bear interest from the date of issue at the rate of 3.5% per annum on the outstanding principal amount thereof which will be payable in cash in US\$ once every year in arrears at the end of each 12-month period commencing from the date of issue of the First Tranche Note or the Second Tranche Note (as the case may be).

LETTER FROM THE BOARD

If Phoenix Success has converted the First Tranche Note or the Second Tranche Note (as the case may be) in whole or in part thereof, Phoenix Success shall be entitled to interest in respect of such part or the whole (as the case may be) of the principal amount of the First Tranche Note or the Second Tranche Note (as the case may be) for the period from the immediately preceding interest payment date or the date of issue of the First Tranche Note or the Second Tranche Note (as the case may be) (whichever is the later) to and up to (but excluding) the date on which the relevant Conversion Shares are issued.

- Redemption at the option of Duomi Music : From the first Business Day immediately following the first anniversary of the date of issue of the First Tranche Note or the Second Tranche Note (as the case may be) and prior to the Maturity Date, Duomi Music may, having given not less than 10 Business Days written notice to Phoenix Success, redeem the First Tranche Note or the Second Tranche Note (as the case may be) in whole at 102.5% of the outstanding principal amount of the First Tranche Note or the Second Tranche Note (as the case may be), together with any accrued but unpaid interest on such principal amount.
- Redemption at the option of Phoenix Success : From the date of issue of the First Tranche Note and prior to the Maturity Date, Phoenix Success shall have the right to require Duomi Music to redeem its First Tranche Note (in whole or in part) at 100% of the outstanding principal amount of the First Tranche Note, together with any accrued but unpaid interest on such principal amount, if the actual turnover (including the prime operating revenue but excluding the revenue from the software development, government grant and other non-operation revenue) of Duomi Music for the accounting reference period ending on 31 December 2014 as recorded in the 2014 Reviewed Statements is lower than 50% of the 2014 Turnover Forecast.

LETTER FROM THE BOARD

From the date of issue of the First Tranche Note and prior to the Maturity Date, Phoenix Success shall have the right to require Duomi Music to redeem its outstanding First Tranche Note and Second Tranche Note (in whole or in part) at 100% of the outstanding principal amount of the Convertible Note, together with any accrued but unpaid interest on such principal amount, if the actual turnover (including the prime operating revenue but excluding the revenue from the software development, government grant and other non-operation revenue) of Duomi Music for the accounting reference period ending on 31 December 2015 as recorded in the 2015 Audited Statements is lower than 50% of the 2015 Turnover Forecast.

- Adjustment to the Conversion Price :
- The conversion price of the Conversion Shares shall from time to time be subject to adjustment in accordance with the followings if, whilst any part of the Convertible Note remains outstanding, any of the following events or circumstances in relation to the Duomi Shares occurs:
- (i) consolidation, subdivision or reclassification;
 - (ii) capitalisation of profits or reserves;
 - (iii) capital distribution;
 - (iv) issue of new Duomi Shares by way of rights;
 - (v) issue of other securities convertible into or exchangeable for new Duomi Shares for cash;
 - (vi) issue of new Duomi Shares at a price per share less than the applicable conversion price; and
 - (vii) issue of new Duomi Shares for the acquisition of assets at a total effective consideration per share less than the applicable conversion price.

LETTER FROM THE BOARD

- Negative Covenant : So long as the Convertible Note is outstanding or any amount is due owing as payable by Duomi Music to Phoenix Success, and subject to any approvals otherwise given in writing by Phoenix Success, Duomi Music represents, warrants, undertakes and agrees, among others:
- (i) to ensure that the Duomi Group shall not sell, lease, transfer or otherwise dispose of the revenue or assets of the Duomi Group which is in excess of RMB1,000,000 or will or would be expected to have a material adverse financial effect on the Duomi Group, except for the sale or lease of stock-in-trade or other assets in the usual and ordinary course of business on normal commercial terms;
 - (ii) not to use the proceeds from the Convertible Note for any purposes other than financing the business development and working capital of Duomi Music;
 - (iii) to ensure that the auditors of Duomi Music for the accounting reference periods ending on 31 December 2014 and 31 December 2015 shall only be appointed with the approval of Phoenix Success in writing; and
 - (iv) not to issue new Duomi Shares or other securities of Duomi Music convertible into Duomi Shares at a price lower than the applicable conversion price (or US\$0.466 if such issuance is made prior to the date of issuance of the 2015 Audited Statements subject to adjustment under the Convertible Note); but this shall not prevent the issuance of new Duomi Shares or other securities of Duomi Shares convertible into Duomi Shares at a price equal to or greater than the applicable conversion price (or US\$0.466 if such issuance is made prior to the date of issuance of the 2015 Audited Statements subject to adjustment under the Convertible Note), so long as Duomi Music gives 5 Business Days' prior written notice to Phoenix Success before executing any agreement, contract or other documents in relation to such issuance.

LETTER FROM THE BOARD

- Events of Default : The Convertible Note contains customary events of default provisions which provide that, on the occurrence of certain events of default specified in the terms therein, Phoenix Success shall be entitled to demand for immediate repayment of the outstanding principal amount of the First Tranche Note or the Second Tranche Note (as the case may be) together with any accrued interest. Such events of default include, without limitation, the following:
- (i) Duomi Music defaults in performance or observance or compliance with any of its obligations under the Convertible Note;
 - (ii) Duomi Music or any of its principal operating subsidiaries becomes insolvent or is unable to pay its debts as they fall due or applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of Duomi Music or any of its principal operating subsidiaries;
 - (iii) a petition is presented for the winding-up, insolvency, administration or dissolution of Duomi Music or any of its principal operating subsidiaries;
 - (iv) the breach of any of the warranties given by Duomi Music in the Subscription Agreement and such breach will or would be expected to have a material adverse financial effect on the Duomi Group as a whole;
 - (v) any amounts of principal repayment or interest payment in relation to bank borrowings of Duomi Music or any of its subsidiaries are not paid when due;
 - (vi) any seizure, nationalization, expropriation or compulsory acquisition of revenues or assets of the Duomi Group;
 - (vii) it shall become unlawful for Duomi Music to perform all or any of its obligations under the Convertible Note under the applicable laws and regulations in any jurisdiction; or
 - (viii) the Convertible Note is declared illegal, void or unenforceable in any respect by any court of competent jurisdiction.

LETTER FROM THE BOARD

Undertakings by Duomi Music : Duomi Music shall deliver to Phoenix Success the 2015 Audited Statements as soon as practicable after the date of issuance of such statements, and in any event, no later than 31 March 2016.

Duomi Music will forthwith on becoming aware of any event of default as mentioned in the Convertible Note give notice in writing thereof to Phoenix Success.

Duomi Music agrees to indemnify and hold harmless Phoenix Success from and against any and all loss, liability, claim, damages and expense whatsoever, as properly incurred, arising out of any breach of any of the warranties and obligations of Duomi Music under the Convertible Note.

Transferability : Phoenix Success shall have the right to assign or transfer the rights and obligations of the Convertible Note subject to the prior consent of Duomi Music.

Voting Rights : Phoenix Success will not be entitled to attend or vote at any shareholders' meetings of Duomi Music by reason only of it being the holder of the Convertible Note.

Completion of the Subscription

Completion of the First Tranche Note will take place on the second Business Day following the date on which (a) Phoenix Success has received Duomi Music's notification in writing that the relevant conditions precedent to the First Tranche Note as set out in the Subscription Agreement have been fulfilled by Duomi Music and (b) Duomi Music has received Phoenix Success's notification in writing that the remaining conditions precedent to the First Tranche Note as set out in the Subscription Agreement have been fulfilled.

Completion of the Second Tranche Note will take place on the second Business Day following the date on which (a) Phoenix Success has received Duomi Music's notification in writing that the relevant conditions precedent to the Second Tranche Note as set out in the Subscription Agreement have been fulfilled by Duomi Music and (b) Duomi Music has received Phoenix Success's notification in writing that the remaining conditions precedent to the Second Tranche Note as set out in the Subscription Agreement have been fulfilled.

As at the Latest Practicable Date, the Company did not have any intention or plan to change the respective date of completion of the First Tranche Note and the Second Tranche Note.

INFORMATION ON DUOMI MUSIC, THE COMPANY AND PHOENIX SUCCESS

Duomi Music is a limited liability company incorporated in the Cayman Islands and held as to 42.73% by Phoenix Success, 30.13% by Fortune Light Investment and 27.14% by Hero Victory Investments Limited, Bile Investments Limited, Beyond Faith Limited, Huayi

LETTER FROM THE BOARD

Brothers, Hina Group Fund L.P., KTB/NHN China Ventures I Limited and Empire Day Limited (the “**Remaining Shareholders**”) (assuming after full conversion of the Preferred A Shares and no ESOP has been exercised) as at the Latest Practicable Date. Each of the Remaining Shareholders is an Independent Third Party.

As at the Latest Practicable Date, the current shareholding structure of Duomi Music was as follows:

Shareholder	Class of shares	Assume no exercise of existing ESOP and additional ESOP (Note 2)		Assume all of the existing ESOP and additional ESOP (Note 2) have been exercised in full	
		No. of shares	Percentage	No. of shares	Percentage
Phoenix Success	Ordinary Shares and Preferred A Shares (Note 1)	50,247,228	42.73%	50,247,228	34.85%
Fortune Light Investment	Ordinary Shares	35,435,640	30.13%	35,435,640	24.58%
Hero Victory Investments Limited	Preferred A Shares (Note 3)	7,661,760	6.51%	7,661,760	5.31%
Bile Investments Limited	Ordinary Shares	3,264,694	2.78%	3,264,694	2.27%
Beyond Faith Limited	Ordinary Shares	2,489,328	2.11%	2,489,328	1.73%
Huayi Brothers	Preferred A Shares (Note 3)	6,933,146	5.90%	6,933,146	4.81%
Hina Group Fund L.P.	Preferred A Shares (Note 3)	2,311,049	1.97%	2,311,049	1.60%
KTB/NHN China Ventures I Limited	Preferred A Shares (Note 3)	6,933,146	5.90%	6,933,146	4.81%
Empire Day Limited	Preferred A Shares (Note 3)	2,311,049	1.97%	2,311,049	1.60%
the existing ESOP (Note 2)	option	–	–	15,907,090	11.03%
the additional ESOP (Note 2)	option	–	–	10,679,530	7.41%
Total		117,587,040	100%	144,173,660	100%

Note 1: Phoenix Success held 36,393,360 Duomi Ordinary Shares and 13,853,868 Preferred A Shares as at the Latest Practicable Date.

Note 2: Duomi Music has adopted the existing ESOP to motivate the senior management and staff of Duomi Music. As at the date of this announcement, a total of 15,907,090 options entitling its holder(s) to subscribe for a total of 15,907,090 Duomi Shares have been granted under the existing ESOP. Pursuant to the share subscription agreements in respect of Duomi Music dated 17 September 2012 (the “**2012 SSA**”) and 28 January 2013 (the “**2013 SSA**”) between Duomi Music and the subscribers of the Preferred A Shares and the shareholders’ agreement dated 17 September 2012 entered into between Duomi Music and all of its shareholders (as revised on 28 January 2013), after completion of the share subscription under the 2012 SSA or the 2013 SSA (as the case may be), Duomi Music and the parties to the relevant SSA 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 Preferred A Shares and exercise of the options under the existing ESOP and 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

Note 3: Holders of the Preferred A Shares shall have the following rights:

- i) **Conversion Right:** The holder of any Preferred A Shares shall have the option to request that all (but not less than all) of the Preferred A Shares it holds be converted at any time, without the payment of any additional consideration, into fully-paid Duomi Shares. Alternatively, each Preferred A Share shall automatically be converted, based on the applicable conversion price, without the payment of any additional consideration, into Duomi Shares upon the earlier of (i) the closing of an IPO in the U.S. 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 Duomi Music, with the market capitalization of at least US\$115,600,000 and gross proceeds to Duomi Music of not less than 20% of such market capitalization (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 Preferred A Shares voting together as a single class.
- ii) **Redemption Right:** At any time and from time to time beginning from the fourth anniversary of completion date of the 2013 SSA, 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 Preferred A Shares held by any of the holders of the Preferred A Shares (as applicable), upon such holder’s written request to Duomi Music, for a redemption price per share equal to 140% of the subscription price of the Preferred A Shares plus all accrued but unpaid dividends. If Duomi Music’s pre-money valuation is equal to USD115,600,000 or more in any further round of financing, merger and acquisition or other exiting opportunities for the holders of the Preferred A Shares (the “Further Round Financing”), the redemption rights of the holders of the Preferred A Shares thereunder shall be automatically terminated once such Further Round Financing is closed.
- iii) **Dividend Right:** In the event that 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 holders of the Preferred A Shares.
- iv) **Voting Right:** At all general meetings of Duomi Music, the holder of each ordinary share in Duomi Music issued and outstanding shall have one vote in respect of each ordinary share held; and the holder of each Preferred A Share shall be entitled to such number of votes equal to the whole number of ordinary shares in Duomi Music into which such holder’s Preferred A Shares are convertible immediately after the close of business on the record date of the determination of the shareholders of Duomi Music entitled to vote or, if no such record date is established, at the date such vote is taken or any written consent of the shareholders of Duomi Music is first solicited. Duomi Group shall not, without the prior written approval of the holders of at least 80% of the outstanding Preferred A Shares, take any of the following acts:
 - (a) the issuance of any securities of any class in Duomi Music having rights superior to or on a parity to any preferred shares in Duomi Music;
 - (b) the declaration of payment of any dividend or other distribution on any equity securities of Duomi Music;
 - (c) any redemption or repurchase of ordinary shares or preferred shares in Duomi Music;
 - (d) any merger, sale, acquisition, consolidation or reorganization of any member of the Duomi Group with or into one or more corporations;
 - (e) an increase or decrease in the number of authorized shares of preferred shares or ordinary shares in Duomi Music;

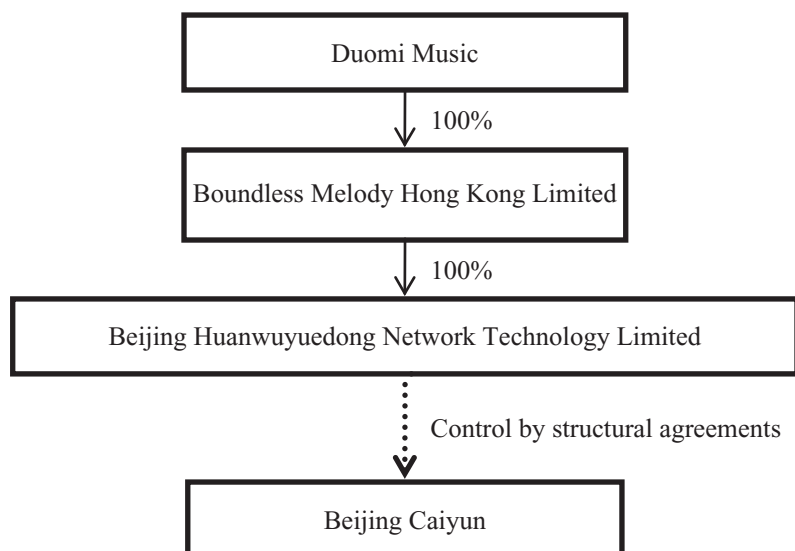
LETTER FROM THE BOARD

- (f) any adverse change to the right, preferences and privileges of any series of preferred shares in Duomi Music;
 - (g) any change in the maximum number of directors of the board of Duomi Music;
 - (h) any amendment or change to the memorandum and articles of association and constitutional documents of any member of the Duomi Group;
 - (i) any borrowing incurrence of indebtedness by any member of the Duomi Group which is in excess of RMB4,000,000;
 - (j) any exclusive, irrevocable licensing of all or substantially all of the intellectual property of the Duomi Group to any third party;
 - (k) any issuance, transfer or sales of any equity securities by any member of the Duomi Group;
 - (l) any transaction with any of the founders of the Duomi Group, officers or directors of any member of the Duomi Group, which involves a loan advance from the Duomi Group to such persons in which the aggregate value exceeds RMB1,000,000 individually or RMB1,000,000 in the aggregate during any 12-month period, except for transactions in the ordinary course of business;
 - (m) the liquidation, dissolution or winding up of any member of the Duomi Group;
 - (n) termination of or any material amendment to the restructuring documents; and
 - (o) consummation of a Qualified IPO or an IPO.
- v) Liquidation Right: Upon any liquidation, dissolution or winding up of Duomi Music, whether voluntary or involuntary, any liquidation proceeds shall be distributed to the shareholders of Duomi Music in the following order of priority:
- (a) first, to each holder of the preferred shares in Duomi Music, an amount equal to 140% of the original issue price of each preferred share in Duomi Music (subject to adjustment) plus all dividends declared and unpaid per preferred share then held by such holder. If, upon any such liquidation, distribution or winding up, the assets of Duomi Music shall be insufficient to make payment of the foregoing amounts in full on all preferred shares in Duomi Music, then such assets shall be distributed among the holders of preferred shares in Duomi Music ratably in proportion to the full amounts to which they would otherwise be respectively entitled thereon; and
 - (b) after distribution or payment in full of the amount distributable or payable on the preferred shares in Duomi Music, the remaining assets of Duomi Music available for distribution to the shareholders of Duomi Music shall be distributed ratably among the holders of ordinary shares and preferred shares in Duomi Music in proportion to the number of outstanding ordinary shares held by or issuable to them (on an as-if-converted basis).

Duomi Music is an investment holding company and is indirectly holding Beijing Caiyun which engages in the business of cloud-based music service offering under the brand of Duomi Music. Specifically, Beijing Caiyun conducts online-music product research and development, music service operations and business development with various partners in the PRC. Duomi Music is one of the leading brands in the mobile music space.

LETTER FROM THE BOARD

In April 2012, the restructuring of Duomi Music was completed following the completion of the foreign exchange registration with the PRC State Administration of Foreign Exchange and the signing of a series of structural agreements between Beijing Huanwuyuedong Network Technology Limited (北京歡舞悅動網絡科技有限公司), a wholly-owned PRC subsidiary of Duomi Music, and the onshore operating companies, including Shenzhen Qingsheng Tongyin Technology Co. Ltd. (深圳市馨笙同音科技有限公司) and Beijing Caiyun and their shareholders. As a result of the restructuring, the controlling relationship between the onshore and offshore companies has been established, and the corporate structure of Duomi Music as at the Latest Practicable Date was as follows:



The unaudited financial information of Duomi Music for the two years ended 31 December 2013 and 31 December 2012 are set out below:

	For the year ended	
	31 December 2013	31 December 2012
	<i>RMB'000</i>	<i>RMB'000</i> (note)
Revenue	24,578	7,021
Net profit/(loss) (before taxation)	(77,809)	(65,995)
Net profit/(loss) (after taxation)	(77,692)	(65,917)

Note: The amount in 2012 represented the consolidated figures for the eight-month period ended 31 December 2012 upon the completion of group reorganization of Duomi Music in April 2012.

The Company principally engages in the business of providing mobile internet services related to digital music and mobile games, etc.

Phoenix Success is a wholly-owned subsidiary of the Company in Hong Kong as an investment holding company for the purpose of holding the relevant shares in the capital of Duomi Music for the benefits and interests of the Company.

LETTER FROM THE BOARD

Management discussion on Duomi Music

The financial data here in this MD&A represented the main operating conditions which had some differences from the previous disclosure in the announcement as follows:

- 1) The financial data of 2012 in this MD&A represented the data for the whole year while the previous disclosure in the announcement included only the eight-month period ended financial information after the completion of Duomi Music's restructuring. The change was made with consideration that it would better reflect the actual operation in 2012 and be better comparable with financial data of 2013;*
- 2) The adjusted loss of both 2013 and 2012 in this MD&A represented the loss for the year excluded the non-operating items such as employee share option and preferred shares in order to better reflect the business operation of Duomi Music.*

Duomi Music has targeted to offer innovative and pervasive mobile music services to consumers in the PRC market over its music cloud platform. With its launched mobile applications covering Nokia, Android, iPhone, Windows Phone over the past few years with recognized better user experience and curated content, Duomi Music has become leading player in the mobile music application in the PRC with over 200 million users. Over the past few years, Duomi Music has established the leading mobile music application design, development and operation teams and the core competence in the mobile application design and development. The mobile music market has become very competitive in the second half of 2013. All the major internet players started to invest heavily in mobile music applications. While Duomi Music continues to consolidate its leadership in the mobile music application, it has also begun to extend its business to the music-oriented social networking as the young generations are increasingly interested in mobile music and entertainment through various participation and sharing applications.

From 2013, Duomi Music has started to monetize the traffic from the mobile music by collaborating with major telecom operators, particularly with China Unicom. Under such collaboration arrangement, Duomi Music shares revenue with China Unicom on the unlimited data package service. With reference to the latest mobile music survey, Duomi Music has become one of the leading revenue generators on China Unicom's open platform. It is expected that Duomi Music will establish such collaboration arrangement with other telecom operators including China Telecom and China Mobile in the near future. In addition, Duomi Music would like to further expand its monetization avenues to mobile games, advertisement, membership services, which will be launched in late 2014. From the cost perspective, the research and development and operation costs are under the control of Duomi Music. The only element with increased costs is the music copyright and the related licenses as the content ownership and the associated costs have become more centralized.

LETTER FROM THE BOARD

For the year ended 31 December 2013

Turnover

Duomi Music recorded a turnover of approximately RMB24,578,000 for the year ended 31 December 2013, compared to approximately RMB10,389,000 for the corresponding period in 2012. Such increase was mainly derived from the collaboration with China Unicom on the unlimited data package services and the increase in turnover generated from Duomi DJ, a music related game, which amounted to RMB15,000,000 and RMB2,000,000, respectively. Conversely, Duomi Music had ceased the operation of the non-core business related to research and development on information technology since 2013, which led to the decrease in revenue of approximately RMB3,000,000 as compared to the corresponding period in 2012.

Copyright costs

For the year ended 31 December 2013, Duomi Music's copyright costs were approximately RMB19,467,000, representing an increase of approximately 38% compared to the corresponding period in 2012.

The increase in copyright costs in 2013 was primarily due to the increase in price in copyright licenses provided by copyright service providers which led to an increase in copyright amortization.

Labor costs and marketing expenses

For the year ended 31 December 2013, labor costs for Duomi Music were approximately RMB25,833,000, representing an increase of approximately 3% compared to the corresponding period in 2012.

There has not been a lot of changes in labor costs over the past three years mainly because the headcount was relatively stable as well as their per capital salary level.

For the year ended 31 December 2013, Duomi Music's marketing expenses were approximately RMB13,468,000, representing a decrease of approximately 18% compared to the corresponding period in 2012.

The decrease of marketing expenses in 2013 compared to that in 2012 mainly because Duomi Music undertook a series of cost effective measures such as active control in marketing costs, change in promotion ideas and selection of promotion channels. The decrease in marketing expenses was due to initial results from these measures.

Administrative expenses and other taxes

For the year ended 31 December 2013, the administrative expenses and other taxes of Duomi Music were approximately RMB18,744,000, representing an increase of approximately 46% compared to the corresponding period in 2012.

LETTER FROM THE BOARD

There was an increase in administrative expenses and other taxes in 2013 as compared to 2012 mainly because: 1) there was a substantial increase in active users in 2013 thereby increasing the required bandwidth and server custody fees of approximately RMB2,000,000; 2) the foreign exchange loss derived from domestic investment and loan financing in 2013 of approximately RMB1,200,000; and 3) the related professional service fees for strategy positioning and Duomi Music's corporate culture training of approximately RMB1,400,000.

Operating net loss

For the year ended 31 December 2013, the operating net loss of Duomi Music was approximately RMB52,935,000, representing a decrease of approximately 9% compared to the corresponding period in 2012.

There was a decrease in operating net loss in 2013 compared to 2012 because the main business started to unfold, leading to fast income growth in the main business. Furthermore, there was minimal change and better control in labor costs and marketing expenses; and there was an increase in copyright costs and other operating expenses and other taxes.

For the year ended 31 December 2012

Turnover

Duomi Music recorded a turnover of approximately RMB10,389,000 for the year ended 31 December 2012, representing an increase of approximately 238% compared to the corresponding period in 2011. Such increase was mainly due to the fact that the development of Duomi Music was at the initial stage in 2011 and the revenue mainly generated from the business related to research and development on information technology. Duomi Music has begun to change its business focus from 2012 and become active in exploring the revenue-generating model based on the accumulated users. Duomi Music generated the advertising revenue in an amount of RMB5,000,000 in 2012 when compared to nil in 2011.

Copyright costs

For the year ended 31 December 2012, Duomi Music's copyright costs were approximately RMB14,123,000, representing an increase of approximately 411% when compared to the corresponding period in 2011.

Compared to that in 2011, there was a substantial increase in copyright costs in 2012 mainly because Duomi Music was in its infancy in 2011 with a relatively small music library and less copyright costs. Since 2012, Duomi Music has expanded its music library, increased business cooperation with copyright service providers and increased the number of copyright agreements, thereby leading to a substantial increase in copyright costs.

LETTER FROM THE BOARD

Labor costs and marketing expenses

For the year ended 31 December 2012, labor costs for Duomi Music were approximately RMB25,094,000, representing an increase of approximately 7% compared to the corresponding period in 2011.

For the year ended 31 December 2012, Duomi Music's marketing expenses were approximately RMB16,416,000, representing an increase of approximately 108% compared to the corresponding period in 2011.

There was a significant increase in marketing expenses in 2012 compared to that in 2011 mainly because Duomi Music increased its promotion, development and marketing efforts, thereby leading to a rapid growth in the number of users.

Administrative expenses and other taxes

For the year ended 31 December 2012, the administrative expenses and other taxes of Duomi Music were approximately RMB12,878,000 which was similar to that in the corresponding period in 2011.

Operating net loss

For the year ended 31 December 2012, the operating net loss of Duomi Music was approximately RMB58,122,000, representing an increase of approximately 32% compared to the corresponding period in 2011.

There was greater operating loss in 2012 than in 2011 mainly because Duomi Music just started to explore its revenue model and the growth in revenue was smaller than that in 2011. Due to reasons such as the enforcement of copyright, market expansion and accumulation of users, there was an increase in copyright costs and marketing expenses. Therefore, Duomi Music suffered from greater operating loss in 2012.

VALUATION REPORT

The Valuation Report is prepared by Grant Sherman Appraisal Limited based on market-based approach, which was adopted as it is a valuation technique commonly used by market participants and had demonstrated to provide reliable estimates of prices obtained in actual market transactions. Please refer to Appendix I of this circular for further details.

REASONS FOR THE SUBSCRIPTION

Prospects of Duomi Music

The Directors hold a positive view on the prospects of the business of Duomi Music and the overall digital music business industry in the PRC.

LETTER FROM THE BOARD

There was a rapid development of the mobile internet in 2013. The number of users of mobile internet has reached 570 million and is comparable to that of personal computer (PC) internet. The status of mobile phones as the first terminal for the internet has become increasingly important. The rapid development of the mobile internet has facilitated the growth of the digital music business. Major internet companies in the market have participated in the digital music business through their own internal growth or acquisitions of different targets with a view to enlarging their market shares. Considering the increase in the number of users of digital music on PC terminals and mobile terminals, the terminals for digital music have become a major consumption of the internet data. The market participants have been exploring effective ways to generate revenue from the digital music platform.

Duomi Music had over 200 million users among which tens million are regarded as active users as determined on a monthly basis, reflecting the close connection of the users with the platform. Duomi Music has an important position in the digital music market in the PRC and has already established its brand name and competitive edges in the market.

After having attracted and accumulated a large number of users through the user developing strategy in 2011 and 2012, Duomi Music's strategy in 2013 was to increase users' activity with a view to maximizing the revenue from the users. Duomi Music has initially formed the users-to-pay (through the corporation with operators), advertising on mobile terminals, Duomi DJ and other business models. The total revenue in 2013 reached RMB25 million all over the year, representing an increase of approximately 136% compared with that in 2012.

Overall, Duomi Music's strategy is to first expand the user community and later develop a business model that can create general revenue from the provision of additional services to such users.

Based on the above reasons, notwithstanding the loss-making track record of Duomi Music for the years ended 31 December 2012 and 31 December 2013, the Directors still hold a positive view on the prospects of the digital music industry in the PRC and Duomi Music.

Benefits of the Subscription

The Directors believe that the Subscription would provide Phoenix Success with an opportunity to have a stable source of interest income and the flexibility to benefit from the growth of Duomi Music by exercising its conversion rights at such time as it considers appropriate during the Conversion Period for the purposes of increasing its shareholding in Duomi Music. Such flexibility is crucial in reducing the investment risks of the Company as the conversion rights attached to the Convertible Note will offer the Company an opportunity to assess the ongoing financial condition of Duomi Music before it decides to make a long term equity investment in Duomi Music by exercising such conversion rights.

Apart from the Subscription, the Company has also explored other investment opportunities that may generate stable return to the Shareholders. However, given the low interest rate in the Hong Kong lending and deposit markets over the past few years and the average return of the Company's financing activities in Hong Kong in 2013 is less than 3%,

LETTER FROM THE BOARD

the Directors consider that the Subscription is the most suitable investment option that can generate a stable source of income and is in the best interest of the Company and the Shareholders as a whole especially taking into account the conversion characteristics of the Convertible Note which can offer a certain degree of investment security to the Company in the light of the loss-making track record of Duomi Music for the years ended 31 December 2012 and 31 December 2013.

Basis of the Conversion Price

The reason of determining the conversion price based on the 2015 Audited Statements is that Duomi Music will likely require around two more years to develop a business model that can leverage its expanding user community to attract internet and mobile users to pay for its consumer oriented value-added services and products. Duomi Music is at its initial stage of development and it normally takes more time for such capital-intensive business to realize its profits from the initial investment. As a result, the Directors believe that the financial information to be presented in the 2015 Audited Statements will reflect the financial strength of Duomi Music in a more realistic way, and determining the conversion price based on the financial information presented in the 2015 Audited Statements will help reduce the investment risk to Phoenix Success and maximize the benefits for the Company and the Shareholders as a whole.

The Directors have determined the applicable conversion prices based on the following factors: 1) the average valuation of enterprises whose businesses are similar to that of Duomi Music is approximately US\$100 million; 2) the valuation of Duomi Music is estimated to be at least approximately US\$100 million if Duomi Music can achieve a break-even level of profit which may prove that Duomi Music has already identified and developed a sustainable business model; 3) the business valuation carried out by the independent valuer based on different projected earnings before interest and tax of Duomi Music is higher than the valuations of Duomi Music forming the basis of different applicable conversion prices under the Convertible Note; and 4) the principal amount of US\$22,910,000 (equivalent to approximately HK\$178,698,000) represents a discount of 9.2% to the post-money valuation of the 34.63% equity interest in Duomi Music. Accordingly, the Directors (excluding the independent non-executive Directors) consider that the conversion price of the Convertible Note is on normal commercial term, fair and reasonable.

Rationale of the Conversion Period

According to the terms of the Convertible Note, the Conversion Period shall commence from the first anniversary of the date of issue of the First Tranche Note or the Second Tranche Note (as the case may be) and end on the Maturity Date, but the Conversion Shares shall only be allotted and issued after the date of issuance of the 2015 Audited Statements (the “**Restriction**”). As a result, despite Phoenix Success may exercise the conversion rights attached to the Convertible Notes from the first anniversary of the date of issuance of the relevant Convertible Notes, it would not be able to obtain the Conversion Shares until 31 March 2016 being the possible date of issuance of the 2015 Audited Statements.

LETTER FROM THE BOARD

Further, notwithstanding the exercise of the conversion rights by Phoenix Success, Duomi Music shall not issue any Conversion Shares without the Required Consent; however, after the expiry of 185 days from the Conversion Date, the proposed issuance shall cease to be subject to and bound by such prior consent requirement, and Duomi Music shall, at the request of Phoenix Success, issue the relevant Conversion Shares to Phoenix Success, in which case the holders of the Preferred A Shares shall be deemed to have consented to such proposed issuance in all respects.

The Company will review the financial condition of Duomi Music from time to time, and it will be in a position to decide whether Phoenix Success should exercise the conversion rights attached to the Convertible Note around the third or fourth quarter of 2015. If the Required Consent cannot be secured from the relevant shareholders of Duomi Music, the Directors are of the view that allowing Phoenix Success to exercise such conversion rights before the issuance of the 2015 Audited Statements with the conversion price to be determined after the issuance of the 2015 Audited Statements will accelerate the process of issuing the Conversion Shares if the Required Consent cannot be secured.

For instance, if Phoenix Success exercises the conversion rights but fails to secure the Required Consent in the third quarter of 2015, the period of 185 days will commence from the Conversion Date but before the issuance of the 2015 Audited Accounts in any event, and in such case, Duomi Music will be able to issue the Conversion Shares shortly upon the issuance of the 2015 Audited Account as the period of 185 days for the deemed Required Consent will also expire by then. As a result, the Directors (excluding the independent non-executive Directors) consider that such terms, including the Restriction and the Conversion Period, are on normal commercial terms and have been arrived at after arm's length negotiation between Phoenix Success and Duomi Music.

Exercise of the Conversion Rights

If the business development and the financing performance of Duomi Music in the next two years are within the expectation of the Company, Phoenix Success may proceed to exercise the conversion rights attached to the Convertible Notes in order to increase its shareholding in Duomi Music. The Directors will review the business prospects and financial condition of Duomi Music by the fourth quarter of 2015 to consider if such exercise of conversion rights would be in the best interest of the Company and the Shareholders.

Synergy with Duomi Music

The Company's development strategy is to establish a music entertainment platform, and Duomi Music possessing a growing user community in the PRC digital music business will be an important business partner of the Company to further expand its platform. It is expected that, following the Subscription, Duomi Music will develop the music-oriented social networking products and services and marketing them to the targeted user groups in a more aggressive way. The Directors (excluding the independent non-executive Directors) are of the view that the Company can leverage such unique and differentiated services of Duomi Music to further develop a viable and sustainable value-added paid and subscription-based business model for the Group, and as a result, the Subscription is in the best interest of the Company for its further expansion in the PRC digital music market.

LETTER FROM THE BOARD

Use of the Proceeds

In accordance with the terms of the Convertible Note, the net proceeds of the Convertible Note will be used for the purpose of financing the business development and working capital of Duomi Music.

It is contemplated that the Subscription will improve the capital usage efficiency of the Group.

Basis of the Consideration

Given the post-money valuation of 100% equity interest in Duomi Music is HK\$568.2 million, which consists of both of the fair market value of Duomi Music and the consideration for the Subscription, pursuant to the fair market value of Duomi Music as at 31 December 2013 carried out by the independent valuer, the principal amount of US\$22,910,000 (equivalent to approximately HK\$178,698,000) of the Convertible Note represents a discount of 9.2% to the post-money valuation of 34.63% equity interest in Duomi Music assuming the full exercise by Phoenix Success of its conversion rights attached to the Convertible Note.

Basis of the Interest Rate

The Directors have determined the interest rate of 3.5% per annum on the outstanding principal amount of the Convertible Note based on the following factors: 1) the benchmark deposit rate of banks in Hong Kong is less than 1%; 2) the USD loan rate of banks in Hong Kong is less than 2% in average; 3) the average return of the Company's financing activities in Hong Kong in 2013 is less than 3%; and 4) the strategic support of Duomi Music to the Company. As a result, the Directors (excluding the independent non-executive Directors) consider that the interest rate of the Convertible Note is on normal commercial term, fair and reasonable.

Source of Fund

The consideration payable by Phoenix Success for the Subscription will be funded by the Group's internal cash resources and the terms of the Subscription Agreement are on normal commercial terms and have been arrived at after arm's length negotiation between Phoenix Success and Duomi Music. Taking into account the potential interest income of approximately US\$2,119,250 (equivalent to approximately HK\$16,530,150), the Directors (excluding the independent non-executive Directors) consider that the terms of the Subscription are fair and reasonable and that the entering into of the Subscription Agreement by Phoenix Success is in the interests of the Company and the Shareholders as a whole.

Save for Mr. Liu, all of the Directors have confirmed that none of them has any material interest in the Subscription; and therefore no Director (except Mr. Liu) is required to abstain from voting at the meeting of the Board to approve the Subscription.

LETTER FROM THE BOARD

RISKS ASSOCIATED WITH THE SUBSCRIPTION

Exchange Rate Risk

The investment of Phoenix Success in the Convertible Note may be subject to exchange rate risk. The Convertible Note will be denominated in the US Dollar while the functional currency of the Group is in RMB. The RMB value of the Convertible Note denominated in the US Dollar will decrease if the US Dollar depreciates against RMB.

The Directors believe that the U.S. economy is recovering, and the U.S. Federal Reserve's quantitative easing policy is a foregone conclusion. It is expected that more capital will flow into the U.S. resulting in a rising demand for the US Dollar. As a result, the US Dollar may appreciate against RMB and such appreciation will be beneficial to the Company as the Convertible Note will be denominated in the US Dollar.

Credit Risk

The Convertible Note is not secured. When Phoenix Success subscribes for the Convertible Note, it is relying on the creditworthiness of Duomi Music. Changes in the creditworthiness of Duomi Music and in market conditions such as the economic and political environment in the PRC and other parts of the world may adversely affect Duomi Music's ability to make payments of the principal and interest of the Convertible Note.

The Directors consider that the credit risk of the Convertible Note can be effectively managed for the following reasons: 1) the Subscription will be made in two tranches, and Phoenix Success may decide not to proceed with the completion of the Second Tranche Note in accordance with the terms of the Convertible Note, if there have occurred any Material Adverse Change before completion of the Second Tranche Note; 2) if Duomi Music defaults in repayment of the principal amount and/or interest under the Convertible Note, Phoenix Success shall remain entitled, on any Business Day during the Conversion Period, to convert the whole or part of such principal amount of the Convertible Note into the Conversion Shares at the applicable conversion price, becoming the controlling shareholder of Duomi Music and thereafter restructuring Duomi Music to maximize its returns; and 3) Phoenix Success has 2 representatives serving as directors of Duomi Music, and they will continue to closely monitor the financial condition of Duomi Music on a regular basis.

FINANCIAL EFFECT OF THE SUBSCRIPTION

The 3.5% annual interest incurred under the terms of the Convertible Note will be recognized as interest income in the Company's consolidated statement of comprehensive income. The Convertible Note will be separately presented as comprising a debt portion and the conversion options embedded in the Convertible Notes. On initial recognition, the debt portion represents the residual between the fair value of the Convertible Note and the fair value of the embedded conversion options. The debt portion is classified as loans and receivables and is subsequently measured at amortized cost using the effective interest method. The conversion options embedded in the Convertible Notes is deemed as held for trading and recognized at fair value through profit or loss on initial recognition with changes in fair value recognized in profit or loss subsequently.

LETTER FROM THE BOARD

Save for the aforementioned financial effect, the Directors are of the view that there will be no other significant financial impact on the assets and liabilities of the Group or any material adverse effect on the cash position and liability position of the Company. The Subscription will not have any immediate impact on the earnings of the Company. The Convertible Note will be recorded as fair value and it will be valued by an independent valuer at the end of the reporting period.

LISTING RULES IMPLICATION

The entering into of the Subscription Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules as the applicable percentage ratios under Rule 14.06 of the Listing Rules are more than 5% but less than 25%.

The Subscription Agreement also constitutes a connected transaction under Chapter 14A of the Listing Rules as (1) Fortune Light Investment, which is owned as to 100% by Mr. Liu and hence an Associate of Mr. Liu, is one of the major shareholders of Duomi Music; and (2) Mr. Liu is currently an executive Director and a Substantial Shareholder of the Company. Accordingly, Duomi Music is a Connected Person of the Company; and the transactions as contemplated under the Subscription Agreement are subject to the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

The EGM will be held for the Independent Shareholders to consider the Subscription Agreement and the transactions contemplated thereunder, and, if thought fit, approve by way of ordinary resolution the Subscription Agreement and the transactions contemplated thereunder.

Mr. Liu, who is the executive Director and has a significant shareholding in Duomi Music through Fortune Light Investment, is regarded as having a material interest in the Subscription Agreement; and therefore he has abstained from voting at the meeting of the Board at which the resolution approving the Subscription Agreement was passed; and Mr. Liu and his Associates are required to abstain from voting on the resolution approving the Subscription Agreement to be passed at the EGM.

The Company will comply with all relevant requirements under the Listing Rules when it exercises the conversion rights attached to the Convertible Note and increase its equity interest in Duomi Music.

EGM

A notice convening the EGM to be held at 10:30 a.m on 18 June 2014 at Suites 903-905, 9/F Shui On Centre, 6-8 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 Subscription Agreement and the transactions contemplated thereunder, is set out from pages 76 to 77 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

LETTER FROM THE BOARD

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.

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

Your attention is drawn to the letter from the Independent Board Committee set out on page 34 of this circular which contains its recommendation to the Independent Shareholders in respect of the Subscription Agreement and the letter from Donvex Capital Limited set out on pages 35 to 51 of this circular which contains its independent financial advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement.

The Directors (excluding the independent non-executive Directors) consider that the terms of the 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 (excluding the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Subscription Agreement and the transactions contemplated thereunder.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

30 May 2014

To the Independent Shareholders,

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE SUBSCRIPTION OF
CONVERTIBLE NOTE ISSUED BY DUOMI MUSIC**

We refer to the circular of the Company dated 30 May 2014 (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 Subscription Agreement and the transactions contemplated thereunder. Donvex Capital Limited 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 Donvex Capital Limited as set out from pages 35 to 51 of the Circular, we are of the opinion that the terms of the 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 Subscription Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Chan Yiu Kwong

Ms. Wu Shihong

Mr. Song Ke

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter from Donvex Capital Limited setting out their advice to the Independent Board Committee and the Independent Shareholders, which has been prepared for the purpose of inclusion in this circular.



Unit 1305, 13th Floor,
Carpo Commercial Building
18-20 Lyndhurst Terrace
Central
Hong Kong

30 May 2014

*The Independent Board Committee and the Independent Shareholders of
A8 Digital Music Holdings Limited*

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE SUBSCRIPTION OF CONVERTIBLE NOTE ISSUED BY DUOMI MUSIC

INTRODUCTION

We refer to our engagement as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription Agreement, details of which are set out in the letter from the Board contained in the circular of the Company dated 30 May 2014 to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used herein have the same meanings as defined elsewhere in the Circular unless the context require otherwise.

On 9 April 2014, Phoenix Success, a wholly owned subsidiary of the Company, and Duomi Music entered into the Subscription Agreement, pursuant to which Duomi Music has conditionally agreed to issue, and Phoenix Success has conditionally agreed to subscribe for, the Convertible Note for cash consideration in an aggregate principal amount of US\$22,910,000 (equivalent to approximately HK\$178,698,000) in two tranches.

The Subscription Agreement also constitutes a connected transaction under Chapter 14A of the Listing Rules (the “**Connected Transaction**”) as (1) Fortune Light Investment, which is owned as to 100% by Mr. Liu and hence an Associate of Mr. Liu, is one of the major shareholders of Duomi Music; and (2) Mr. Liu is currently an executive Director and a Substantial Shareholder of the Company. Accordingly, Duomi Music is a Connected Person of the Company; and the transactions as contemplated under the Subscription Agreement are subject to the reporting, announcement and Independent Shareholders’ approval requirements under the Listing Rules.

In view of the foregoing, the Company will convene an EGM to seek the approval of the Independent Shareholders of the Company on the Subscription Agreement and the transactions contemplated thereby. Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Song Ke,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

the independent non-executive Directors, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the Connected Transaction. Being the Independent Financial Adviser, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders in such regard.

BASIS OF OUR OPINION

In formulating our opinion, we consider that we have reviewed sufficient and relevant information and documents and have taken reasonable steps as required under Rule 13.80 of the Listing Rules to reach an informed view and to provide a reasonable basis for our recommendation. We have relied on the information, statements, opinion and representations contained or referred to in the Circular and all information and representations which 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 at the date hereof. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the letter from the Board contained in the Circular were reasonable made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular.

The Company confirmed that it has provided us with all currently available information and documents which are available under present circumstances to enable us to reach an informed view and we have relied on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reason to suspect that any material facts or information, which is known to the Company, have been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted any form of independent in-depth investigation into business and affairs of the prospects of the Company, Duomi Music or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have taken into consideration the following principal factors and reasons:

1. Background Information of the Group

The Group is engaged with the business of providing mobile internet services related to digital music and mobile games. Based on the discussion with the management of the Company, the Group had started shifting its strategic focus from traditional mobile value added service to digital entertainment business including digital music and mobile games. According to the annual result announcement of the Company for the year ended 31 December 2013 (the “**2013**

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Company Annual Result Announcement”), the Group will expedite to build up the music-based entertainment platform and mobile game publishing platform. As such, the management of the Company expects its strategic focus, including digital music and mobile games, can be benefited from the cooperation between the Group and Duomi Music with the reasons explained in the sections headed “Synergy effect on Duomi Music” and “Capturing the expected growth of PRC digital music market” below.

Set out below is a summary of the Group’s operating results and financial position extracted from the Company’s latest published annual result announcement and annual reports:

	For the year ended	
	31 December 2013	31 December 2012
	RMB’000	RMB’000
Turnover		
Ringback tone services	86,094	192,412
Other music related services	43,223	33,193
Games	37,177	29,441
Other entertainment services	23,242	90,047
	<u>189,736</u>	<u>345,093</u>
Gross profit	62,160	116,282
Profit/(loss) for the year	8,473	(30,012)

As shown in the above table, revenue decreased from approximately RMB345,093,000 for the year ended 31 December 2012 to approximately RMB189,736,000 for the year ended 31 December 2013, representing a decrease of approximately 45.0%. As mentioned above, the Company is shifting its strategic focus from traditional mobile value added service to digital entertainment business including digital music and mobile games. The decline of revenue was mainly due to the shrink of traditional mobile value-added service which was partially offset by the positive financial impact of digital entertainment business that started to take effect near the end of 2013. In addition, loss of RMB30,012,000 for the year ended 31 December 2012 was turned around to profit of RMB8,473,000 for the year ended 31 December 2013 resulting from the combined effects of (i) fair value gain on investment properties; and (ii) impairment of out-of-date cloud system due to change of technology. Therefore, the management of the Company is looking for potential investment which would increase revenue and profit as well as strengthening the market position of the Group in digital entertainment.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The table below summarizes the consolidated financial position of the Group as at 31 December 2013 and 31 December 2012.

	As at	
	31 December 2013	31 December 2012
	RMB'000 (audited)	RMB'000 (audited)
Non-current assets	389,182	248,273
Current assets	546,171	461,566
Cash and cash equivalent	<u>449,157</u>	<u>374,562</u>
 Total assets	 <u>935,353</u>	 <u>709,839</u>
 Non-current liabilities	 27,444	 76,569
Current liabilities	<u>122,023</u>	<u>118,004</u>
 Total liabilities	 <u>149,467</u>	 <u>194,573</u>

As set out in the table above, as at 31 December 2013, the Group's audited cash and cash equivalent was approximately RMB449,157,000 (31 December 2012: RMB374,562,000), representing an increase of 19.9%. The Directors expect and we concur that the cash consideration in an aggregate principal amount of US\$22,910,000 (equivalent to approximately RMB139,980,000) in two tranches payable by Phoenix Success could be funded by the Group's internal cash resources without any immediate cash flow burden to the Company.

2. Industry Overview

a. Industry overview on the mobile internet

According to the 33rd Statistical Report on Internet Development in China released by China Internet Network Information Center on 16 January 2014, the number of internet users in the PRC had reached 618,000,000 and the Internet penetration rate was 45.8%, of which the number of mobile internet users had reached 500,000,000, with annual growth of 19.1% and is expected to have continuous growth in future. The continuous growth of mobile internet users facilitated development of various applications of mobile phone terminal and was a highlight of PRC's internet development in 2013.

As such, we are of the view that the number of mobile internet users in mobile phone applications is expected to increase with the population of mobile internet users, improvement of the basic environment of internet access and decrease in internet access cost.

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b. Digital Music Industry Overview

According to summary of 2013 China Digital Music Market Annual Report issued by the Ministry of Culture of the People's Republic of China in April 2014, the number of digital music users increased to 500,000,000 as at the end of 2013 representing a growth of 14.7% (2012: 435,860,000). The growth was due to the increase in number of mobile internet users in digital music by 203.1% to 291,000,000 as at the end of 2013 (2012: 96,000,000).

According to the research conducted by www.sootoo.com, Duomi Music ranked fifth in the number of times of music application being downloaded in 2013 combining the data from the major third party download platforms in the PRC.

Having considered the statistics stated above, we are of the view that the outlook of digital music market in the PRC would remain positive and promising in the near future.

3. Reasons and benefits for entering into the Subscription Agreement

(i) Background of Duomi Music

Duomi Group is primarily engaged in the business of cloud-based music service under the brand name of Duomi Music. It provides music content to internet users via its website and mobile phone application. According to the 2013 Company Annual Result Announcement, the number of users of Duomi Music exceeded 200,000,000 and the average listening hours from active users reached about 7 days a month due to (i) the cooperation of music data traffic program with the telecommunication network operator; and (ii) the extended and strengthened cooperation with mainstream mobile phone manufacturers that the mobile phone application of Duomi Music will be installed to the mobile phones by the mobile phone manufacturers.

The management of the Company expects the number of users of Duomi Music will continue to increase which will have positive impact on revenue in the short term. A further increase in number of users of Duomi Music may possibly be achieved if the relationship with other telecommunication network operators can be established as stated in the section headed "Synergy effect on Duomi Music" below.

(ii) Synergy effects for Duomi Music and the Group

Cooperation between Duomi Music and the Group

Save for the existing co-operation between the Company and Duomi Music, which has been stated in the announcement dated 8 June 2013 issued by the Company, there is no cooperative terms or conditions undertaking

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

between Duomi Music and Phoenix Success. However, upon the conversion of the Convertible Note into Conversion Shares, Phoenix Success will become the majority shareholder of Duomi Music as shown in the section headed “Shareholding structure of Duomi Music” below. The Company will be able to exercise control and formulate strategic plan for Duomi Music. This can allow the Company to fully utilize the platforms and interactive media of Duomi Music to release its mobile games and music to users of Duomi Music as stated in the paragraph of “Building up of digital entertainment platforms” below.

Synergy effect on Duomi Music

Based on the discussion with the management of the Company, it has established solid business relationships with the leading telecommunication network operators in the PRC. These solid relationships can assist Duomi Music to integrate into the market of digital music through the mobile internet platforms and channels provided by the telecommunication network operators. Duomi Music could easily reach the mobile internet users and release its licensed music and music content through the platforms and channels provided. As a result, the brand of Duomi Music will be promoted and recognized by the public through the cooperation with the leading telecommunication network operators. Instead of downloading the music content through the telecommunication network, the internet users can directly assess Duomi Music through various types of interactive media, including mobile application under different operating systems, computer based software and smart televisions. The management of the Company expects growth of number of users of Duomi Music will be achieved through the cooperation with the leading telecommunication network operators and most importantly, the interactive media after promoting the recognition of the brand of Duomi Music.

Building up of digital entertainment platforms

Based on the discussion with the management of the Company, the Company positions itself to build up a new digital entertainment group including music-based platform and mobile games publishing platform. Leveraging on the cooperation with Duomi Music and understanding the subscription of the content of Duomi Music by users are driven by the varieties of entertainment, the Company could (i) release and promote its mobile games and music to the users of Duomi Music; and (ii) enhance the online content with other types of entertainment. As such, users of Duomi Music can support the business development, in particular, building up a digital entertainment platform and online to offline business model. Upon the Completion, the Company and Duomi Music can share the common cost of technologies, marketing and promotional expense and increase the number of users of the Group by sharing the customer bases of Duomi Music. Therefore, the building up of digital entertainment platforms is expected to build along with positive financial impact to the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(iii) Capturing the expected growth of PRC digital music market

According to the 2013 Company Annual Result Announcement, the Group has been shifting the focus to the field of digital music and mobile Internet. And the Group positioned itself to build up a new digital entertainment group including music-based entertainment platform and prime game publishing platform.

According to the section headed “Digital Music Industry Overview” above, the digital music market is expected to grow with the increase in the number of internet users, specifically in the number of mobile internet users, in the PRC. Therefore, the Company can capture the increase in digital music market demand by means of utilizing Duomi Music.

(iv) Subscription monies of Duomi Music

In order to increase the number of users of Duomi Music, the subscription monies of US\$22,910,000 (equivalent to approximately RMB143,137,000) to be paid to Duomi Music pursuant to the Subscription Agreement will be allocated as follows:

Expense by nature	Total	Purpose of expenditure
	<i>RMB</i>	
Copyright expenses	47,000,000	Purchase copyrights of music content to provide a wide variety of music to users of Duomi Music
Labour costs	38,000,000	
Marketing expenses	32,000,000	Promotion of the brand of Duomi Music to increase its public recognition
Operational expenses and other tax expense	<u>26,137,000</u>	
Total	<u><u>143,137,000</u></u>	

The Directors believe and we concur that the Subscription would provide the Group with an opportunity to (i) widen the customer bases of the Group’s mobile games through the platforms provided by Duomi Music; (ii) bring along with positive financial impact to the Group by increasing the revenue of both digital music business and mobile game business; (iii) enhance the marketing and promotional efficiency of the Group’s mobile games by reaching internet users through platforms provided by Duomi Music; (iv) expand into the market of digital music in the PRC; and (v) have a stable source of interest income.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Valuation of Duomi Music

The Company has engaged Grant Sherman Appraisal Limited (the “**Valuer**”) as the independent valuer for the valuation of the fair value of Duomi Music. We have reviewed and enquired with the Valuer in relation to their experiences, including their participations in valuing business enterprises in the PRC. We have also reviewed the terms of the Valuer’s engagement, in particular, their scope of work, and noted that it is appropriate to the opinion required to be given. No limitation on the scope of work which might adversely impact on the degree of assurance given by them in the valuation report has been noted.

We have reviewed the valuation report issued by the Valuer (the “**Valuation Report**”) dated 10 April 2014, and discussed with the Valuer, regarding, among other things, the basis and assumptions and the methodology adopted in conducting the valuation of Duomi Music. The fair value of Duomi Music as at 31 December 2013 is RMB312,000,000 (equivalent to approximately HK\$389,500,000) pursuant to the valuation report provided by the Valuer.

The Valuer has adopted the market-based approach to determine the fair value of Duomi Music. The market-based approach was adopted as it is a valuation technique commonly used by market participants and had demonstrated to provide reliable estimates of prices obtained in actual market transactions. The fair market value of Duomi Music was determined based on the number of active users and the adjusted value per existing subscriber multiple calculated from comparable companies.

Based on our discussion with the Valuer in relation to the basis used in determining the key parameters, we considered such parameters are justifiable in checking the underlying resources of the parameters and re-performing the calculations of the components of the valuation of Duomi Music.

In light of the above, we are of the view that the basis of which the Valuation Report has been prepared is reasonable without any unusual assumptions adopted by the independent Valuer.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

5. Terms of the Subscription Agreement

(i) *Terms of the Conversion Price*

Terms of the Subscription Agreement

Pursuant to the Subscription Agreement, the conversion price of the Conversion Shares shall be determined as follows:

Scenario 1

If the 2015 EBIT as recorded in the 2015 Audited Statements is lower than zero, the conversion price shall be US\$0.368 (equivalent to approximately HK\$2.870).

Scenario 2

If the 2015 EBIT as recorded in the 2015 Audited Statements is equal to or higher than zero but lower than RMB15,000,000 (equivalent to approximately HK\$18,726,591), the conversion price shall be US\$0.433 (equivalent to approximately HK\$3.377).

Scenario 3

If the 2015 EBIT as recorded in the 2015 Audited Statements is equal to or higher than RMB15,000,000 (equivalent to approximately HK\$18,726,591), the conversion price shall be US\$0.466 (equivalent to approximately HK\$3.635).

Our View

Scenario 1

As shown in the table below, in the event that Phoenix Success exercises the Conversion Shares at the conversion price of US\$0.368 (equivalent to approximately HK\$2.870), the market capitalization of Duomi Music Would be RMB300,000,000 (equivalent to approximately HK\$374,532,000) which is calculated based on the number of existing shares of Duomi Music assuming 15,907,090 shares fully exercised under existing employee share option plan multiplies by the conversion price. Based on the enquiry with the management of the Company, the said options under existing employee share option plan, held by the senior management and founder of Duomi Music, are included in the calculation as they were fully granted and are likely to be exercised while only 1,492,910 out of 10,679,530 share options under additional employee share option plan were granted and the share option holders of additional employee share option

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

plan do not show any intentions to exercise the share options as at this moment. The market capitalization represents 3.8% discount of the fair value of Duomi Music as at 31 December 2013 as stated in the Valuation Report.

We are of the view that the conversion price of US\$0.368 is fair and reasonable due to the consideration that (a) the 2015 EBIT would be lower than zero when Phoenix Success exercises the Conversion Shares at the conversion price of US\$0.368; (b) Duomi Music has turned around from loss making to break even in 2015, representing a significant improvement in the operations of Duomi Music; and (c) Duomi Music generating profit in the financial year of 2016 will be likely as a result of improving the synergy effect of the cooperation of music data traffic program with the telecommunication network operator after the ramp-up phase.

Scenario 2

As shown in the table below, in the event that Phoenix Success exercises the Conversion Shares at the conversion price of US\$0.433 (equivalent to approximately HK\$3.377), the market capitalization of Duomi Music would be RMB353,000,000 (equivalent to approximately HK\$440,699,000), which is 13.1% premium of the fair value of Duomi Music as at 31 December 2013 as stated in the Valuation Report.

We are of the view that the conversion price of US\$0.433 is fair and reasonable due to the consideration that (a) the 2015 EBIT would be equal to or higher than zero but lower than RMB15,000,000 (equivalent to approximately HK\$18,726,591) when Phoenix Success exercises the Conversion Shares at the conversion price of US\$0.433; (b) Duomi Music has turned around from loss making to breakeven or profit making in 2015, representing a significant improvement in the operations of Duomi Music; and (c) Duomi Music must have benefited from the synergy effect of the cooperation of music data traffic program with the telecommunication network operator to increase the number of users of Duomi Music; and (ii) creating the trend of paying for a music subscription in the PRC;

Scenario 3

As shown in the table below, in the event that Phoenix Success exercises the Conversion Shares at the conversion price of US\$0.466 (equivalent to approximately HK\$3.635), the market capitalization of Duomi Music would be RMB380,000,000 (equivalent to approximately HK\$474,407,000), which is 21.8% premium of the fair value of Duomi Music as at 31 December 2013 as stated in the Valuation Report.

We are of the view that the conversion price of US\$0.466 (equivalent to approximately HK\$3.635), is fair and reasonable due to the consideration that (a) the 2015 EBIT would be equal to or higher than RMB15,000,000 (equivalent to approximately HK\$18,726,591) when Phoenix Success

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exercises the Conversion Shares at the conversion price of US\$0.466; (b) the price earnings ratio is approximately 43.04 times of the profit of Duomi Music assuming it has profit after tax of RMB11,250,000 in 2015 (equivalent to approximately HK\$14,044,943) deducting the PRC corporate income tax of 25% from the EBIT; and (c) Duomi Music must have benefited from (i) the synergy effect of the cooperation of music data traffic program with the telecommunication network operator to increase the number of users of Duomi Music; (ii) creating the trend of paying for a music subscription in the PRC; and (iii) strengthening the cooperation with mainstream mobile phone manufacturers to integrate to the mobile internet market. As such, the conversion price set based on EBIT is on normal commercial terms, fair and reasonable and in the interest of the Company and its shareholders as a whole.

Shareholding structure of Duomi Music

Set out below is the shareholding structure of Duomi Music in the event that Phoenix Success exercises the Conversion Shares:

	As at the Latest Practical Date assuming no exercise of existing and additional employee share options plan		Assuming conversion in full of Convertible Note under scenario 1 and no exercise of existing and additional employee share options plan		Assuming conversion in full of Convertible Note under scenario 2 and no exercise of existing and additional employee share options plan		Assuming conversion in full of Convertible Note under scenario 3 and no exercise of existing and additional employee share options plan	
	<i>Number of Duomi Shares</i>		<i>Number of Duomi Shares</i>		<i>Number of Duomi Shares</i>		<i>Number of Duomi Shares</i>	
		%		%		%		%
Phoenix Success	50,247,228	42.73	112,544,489	62.57	103,191,076	60.51	99,429,276	59.62
Fortune Light	35,435,640	30.14	35,435,640	19.70	35,435,640	20.78	35,435,640	21.25
Hero Victory Investment Limited	7,661,760	6.52	7,661,760	4.26	7,661,760	4.49	7,661,760	4.59
Huayi Brothers	6,933,146	5.90	6,933,146	3.85	6,933,146	4.07	6,933,146	4.16
KTB/ NHN China Ventures Limited	6,933,146	5.90	6,933,146	3.85	6,933,146	4.07	6,933,146	4.16
Other shareholders	10,376,120	8.83	10,376,120	5.77	10,376,120	6.08	10,376,120	6.22
Total	117,587,040	100	179,884,301	100	170,530,888	100	166,769,088	100

In the event that any of the above scenarios occurs, the Company will have majority shareholding interest in Duomi Music which should (i) widen the customer bases of the Group's mobile games through the platforms provided by Duomi Music; (ii) bring along with positive financial impact to the Group by increasing the revenue of both digital music business and mobile game business; (iii) enhance the marketing and promotional efficiency of the Group's mobile games by reaching internet users through

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platforms provided by Duomi Music; (iv) expand into the market of digital music in the PRC; and (v) have a stable source of interest income prior the conversion of the Convertible Note.

(ii) Interest rate

Pursuant to the Subscription Agreement, the Convertible Note will bear interest from the date of issue at the rate of 3.5% per annum on the outstanding principal amount thereof which will be payable in cash in US\$ once every year in arrears at the end of each 12-month period commencing from the date of issue of the Convertible Note.

In assessing the fairness and reasonableness of the interest rate of the Convertible Note, we have conducted a research on the current interest rate for 1-year time deposit and 2-year time deposit from the People's Bank of China in the PRC where the principal activity of Duomi Music is conducted as at the Latest Practical Date as tabulated below:

	Interest rate for 1-Year time deposit as at the Latest Practical Date	Interest rate for 2-Year time deposit as at the Latest Practical Date
The People's Bank of China	3.00%	3.75%

Having considered that the interest rate of the Convertible Note, being 3.5% per annum, (i) is higher than the 1-year time deposit of 3.00%; and (ii) similar to the 2-year time deposit of 3.75%. Therefore, the Directors believe and we concur that the interest rate pursuant to the Subscription Agreement is fair and reasonable.

(iii) Redemption at the option of Duomi Music according to the Subscription Agreement

Terms of the Subscription Agreement

From the first Business Day immediately following the first anniversary of the date of issue of the First Tranche Note or the Second Tranche Note (as the case may be) and prior to the Maturity Date, Duomi Music may, having given not less than 10 Business Days written notice to Phoenix Success, redeem the First Tranche Note or the Second Tranche Note (as the case may be) in whole at 102.5% of the outstanding principal amount of the First Tranche Note or the Second Tranche Note (as the case may be), together with any accrued but unpaid interest on such principal amount.

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Our view

According to the terms of the Subscription Agreement, the Company will have an immediate gain of 2.5% additional interest save for any accrued interest of 3.5% per annum for the Convertible Note on the outstanding amount. In view of the relatively low return as stated in the section of “Interest rate” above, 3.5% per annum plus an addition of 2.5% is above the interest rate for 2-year time deposit of People’s Bank of China. Therefore, we are of the view that the redemption at the option of Duomi Music is fair and reasonable.

(iv) Redemption at the option of Phoenix Success according to the Subscription Agreement

Terms of the Subscription Agreement

From the date of issue of the First Tranche Note and prior to the Maturity Date, Phoenix Success shall have the right to require Duomi Music to redeem its First Tranche Note (in whole or in part) at 100% of the outstanding principal amount of the First Tranche Note, together with any accrued but unpaid interest on such principal amount, if the actual turnover (including the prime operating revenue but excluding the revenue from the software development, government grant and other non-operation revenue) of Duomi Music for the accounting reference period ending on 31 December 2014 as recorded in the 2014 Reviewed Statements is lower than 50% of the 2014 Turnover Forecast.

From the date of issue of the First Tranche Note and prior to the Maturity Date, Phoenix Success shall have the right to require Duomi Music to redeem its outstanding First Tranche Note and Second Tranche Note (in whole or in part) at 100% of the outstanding principal amount of the Convertible Note, together with any accrued but unpaid interest on such principal amount, if the actual turnover (including the prime operating revenue but excluding the revenue from the software development, government grant and other non-operation revenue) of Duomi Music for the accounting reference period ending on 31 December 2015 as recorded in the 2015 Audited Statements is lower than 50% of the 2015 Turnover Forecast.

Our view

In the event that Duomi Music cannot meet the turnover forecast as set in the Subscription Agreement, Phoenix Success can exercise this redeem option to redeem up to all of the principal amount of Convertible Note at 100% without making any loss. At the same time, the Company would still receive any accrued but unpaid interest of 3.5% per annum. Thus, we are in the view that the terms of redemption at the option of Phoenix Success can

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(i) provide the Company the option to cease the investment if the digital music industry is not performing well; and (ii) reserve the stable source of interest income at 3.5% per annum.

(v) *Determination of the Conversion Price based on 2015 Audited Statements of Duomi Music*

Pursuant to the Subscription Agreement, the Conversion Price shall be determined based on the 2015 Audited Statements. Based on the discussion with the management of the Company, the strategy of Duomi Music was to increase users' activity with a view to maximizing the revenue from the users in 2013 by forming the users-to-pay (through corporation with operators), advertising on mobile terminals, Duomi DJ and other business model after Duomi Music attracted and accumulated a large number of users through the user developing strategy in 2011 and 2012. Duomi Music intends to first expand the user community and develop a business model that can create general revenue from the provision of additional services to such users afterwards. Duomi Music is likely require two more years to develop a business model that can leverage its expanding user community to attract internet and mobile users to pay for its consumer oriented value-added services and products. The turnaround from loss to profit of Duomi Music is expected to achieve in 2015 through capturing the expected growth of PRC digital market and synergy created between the Company and Duomi Music. As such, the management of the Company can make use of the year ending 31 December 2014 and 2015 as the observation period of the development of Duomi Music to minimize investment risk. And the financial information to be presented in the 2015 Audited Statements will reflect the progress of development of Duomi Music. We consider that the determination of the Conversion Price based on 2015 Audited Statements of Duomi Music is on normal commercial terms, fair and reasonable and in the interest of the Company and shareholder as a whole.

(vi) *The Restriction*

Terms of the Subscription Agreement

According to the terms of Convertible Note, the Conversion Period shall commence from the first anniversary of the date of issue of the First Tranche Note or the Second Tranche Note (as the case may be) and end on the third anniversary of the date of issuance of the respective notes, but the Conversion Shares shall only be allotted and issued after the date of issuance of the 2015 Audited Statements (the "Restriction"). As a result, despite Phoenix Success may exercise the conversion rights attached to the Convertible Note from the first anniversary of the date of issuance of the relevant Convertible Notes, it would not be able to obtain the Conversion Shares until 31 March 2016 being the date of issuance of the 2015 Audited Statements.

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If the consent date or the date, at the request of Phoenix Success who shall be satisfied that there have not occurred any Material Adverse Change, (as the case may be) falls on a day prior to the date of issuance of the 2015 Audited Statements, the Conversion Price shall not be determined until the date of issuance of the 2015 Audited Statements, and the Conversion Shares shall be allotted and issued in the name of Phoenix Success; and valid share certificate(s) thereof shall be delivered to Phoenix Success at the address specified in the Conversion Notice as soon as practicable but in any event no later than 3 Business Days from the date of the issuance of the 2015 Audited Statements should such address be a Hong Kong address or 5 Business Days should such address be one outside Hong Kong from the date of issuance of the 2015 Audited Statements.

Our view

Notwithstanding the exercise of the conversion rights by Phoenix Success, Duomi Music shall not issue any Conversion Shares without the prior written consent of the holders of at least 80% of the Preferred A Shares, including the consent of Huayi Brothers (the “**Required Consent**”); however, after the expiry of 185 days from the Conversion Date, the proposed issuance shall cease to be subject to and bound by such prior consent requirement, and Duomi Music, at the request of Phoenix Success, issue the relevant Conversion Shares to Phoenix Success, in which case the holders of the Preferred A Shares shall be deemed to have consented to such proposed issuance in all respects.

In the event that the Required Consent cannot be secured from the relevant shareholders of Duomi Music, the Directors are of the view that allowing Phoenix Success to exercise such conversion rights before the issuance of the 2015 Audited Statements with the conversion price to be determined after the issuance of 2015 Audited Statements will accelerate the process of issuing the Conversion Shares if the Required Consent cannot be secured. The period of 185 days will commence from the Conversion Date but before the issuance of the 2015 Audited Statements in any events. In such case, Duomi Music will be able to issue the Conversion Shares shortly upon the issuance of the 2015 Audited Statements as the period of 185 days for the deemed Required Consent will also expire by then.

If the business development and the financing performance of Duomi Music in the next two years are within the expectation of the management of the Company, Phoenix Success may proceed to exercise the conversion rights attached to the Convertible Note in order to increase its shareholding in Duomi Music. The Directors will review the business prospects and financial conditions of Duomi Music by the fourth quarter of 2015 to consider if such exercise of conversion rights would be in the best interest of the Company and the Shareholder as a whole.

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Since the conversion price of the Conversion Shares is determined based on 2015 Audited Statements, Conversion Shares will not be allotted and issued until the issuance of the 2015 Audited Statements. We consider such term under the Subscription Agreement is favourable to the Company as (i) it can consider whether Duomi Music can turnaround in 2015 which will be a critical year for the development of Duomi Music; (ii) it can avoid any adjustment with the profit of Duomi Music in 2015 in the event that the Conversion Price is based on the audited profit of Duomi Music in 2015; and (iii) the Company will review the financial conditions from time to time and be able to obtain the Conversion Shares in first half of 2016 if they choose to exercise the conversion rights in late second half of 2015.

(vii) The Conversion Period

Terms of the Subscription Agreements

The Conversion Period commences from the first anniversary of the date of issuance of the First Tranche Note or the Second Tranche Note and ending on the third anniversary of the date of issue of First Tranche.

Our view

Based on the loss making record of Duomi Music for the year ended 31 December 2012 and 2013, the management of the Company can make a detail observation about the operational and financial performance of Duomi Music under the Conversion Period. We considered that the Conversion Period is on normal commercial terms, fair and reasonable and in the interest of the Company of the shareholders as a whole that the Company can (i) review the prospectus and financial conditions of Duomi Music near the year ended 31 December 2014 to assess their progress of development; (ii) take notice of any adverse changes occurred within the digital music industry in 2015 which will be a critical year for the development of Duomi Music; and (iii) examine whether the business development of Duomi Music is within the expectation of the management of the Company in early 2016 after taking into account of the financial performance of Duomi Music for the year ended 31 December 2015.

6. Financial Effect of the Transactions

Assets

As at 31 December 2013, the consolidated total assets of the Group were approximately HK\$935,353,000. Such financial information is extracted from the 2013 Company Annual Result Announcement. Upon the completion of the Subscription, there would not be any material changes on the consolidated total assets of the Group as advised by the Directors.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Liabilities

As at 31 December 2013, the consolidated total liabilities of the Group were approximately HK\$149,467,000. Such financial information is extracted from the 2013 Company Annual Result Announcement. Upon the completion of the Subscription, there would not be any material changes on the consolidated total liabilities of the Group as advised by the Directors.

Earnings

After taking into account the potential business synergies and other benefits that is expected to result from the Subscription as mentioned in the paragraph headed “Reasons and benefits of entering into the Subscription Agreement” above, and taking into consideration that the Subscription would provide an opportunity for the Group to broaden its source of income.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons and in particular,

- an opportunity for the Company to expand into the market of digital music in PRC which is in line with the business strategy of the Group;
- increase the number of users of Duomi Music and the Group’s mobile games by sharing of their customer bases;
- enhance the marketing and promotional efficiency of the Group’s mobile games by reaching internet users through platforms provided by Duomi Music;
- synergy effect could be achieved through utilization of the business relationships and platforms of which the Group and Duomi Music currently possess; and
- that the terms under the Subscription Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

We consider that the terms and conditions of the Subscription Agreement has been entered into within the ordinary and usual course of the business of the Group based on the normal commercial terms so far as the Independent Shareholders are concerned and in the interests of the Independent Shareholders as a whole. Accordingly, we advise the Independent Shareholders and the Independent Board Committee to recommend the Independent Shareholders, to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Connected Transaction.

Yours faithfully,
For and on behalf of
Doris Sy
Director

The following is the text of a letter prepared for incorporation in this circular received from Grant Sherman Appraisal Limited, an independent valuer, in connection with its valuation of Duomi Music as at 31 December 2013.



GRANT SHERMAN

Unit 1005, 10/F., AXA Centre,
151 Gloucester Road,
Wanchai,
Hong Kong

10 April 2014

A8 Digital Music Holdings Limited
24th floor, A8 Music Building,
NO.1002 Keyuan Road of Hi-tech Park,
Nanshan District, Shenzhen, PRC. 518054

Dear Sirs or Madams,

APPRAISAL SUMMARY LETTER

In accordance with your instructions, we have made an appraisal of the fair market value of the business enterprise of Duomi Music Holding Limited. (“Duomi”), a limited company incorporated in the Cayman Islands. Pheonix Success Limited, a wholly subsidiary of A8 Digital Music Holdings Limited (the “Company”), entered into a subscription agreement to subscribe for the convertible notes issued by Duomi for consideration of US\$22,910,000 in two tranches subject to terms and conditions on 9 April 2014. Duomi and its subsidiaries (“Duomi Group”) are principally engaged in of online digital music distribution.

Fair Market Value is defined as the estimated amount at which the business enterprise might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business at its present location for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

This letter identifies the business appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value.

The purpose of this appraisal is to express an independent opinion of the fair market value of Duomi as at 31 December 2013 (the “Appraisal Date”). It is our understanding that this appraisal will be used for subscription of convertible notes of Duomi and our report might be incorporated in or used in connection with a public document to be issued to the shareholders of the Company.

INTRODUCTION**BACKGROUND OF THE APPRAISAL**

Pheonix Success Limited, a wholly subsidiary of the Company, entered into a subscription agreement to subscribe for the convertible notes issued by Duomi for consideration of US\$22,910,000 in two tranches subject to terms and conditions on 9 April 2014.

THE COMPANY

The Company, an exempted company incorporated in the Cayman Islands with limited liability. The Company is listed on the main board of the Hong Kong Stock Exchange with stock code (800.HK). The Company is principally engaged in providing mobile value-added services, focusing on music and culture related content through mobile phones in the PRC.

DUOMI GROUP

Duomi is a company incorporated under the laws of Cayman Islands. Duomi Group is principally engaged in online digital music distribution and music related value-added services. Duomi Group has developed its online music platform in personal computers, Android, Apple iOS and Windows Phone. Other than digital music distribution, Duomi Group is also focused on developing music related games and online social community.

INDUSTRY OVERVIEW

Digital music distribution platform is an online platform which delivers music and related contents over the Internet. Digital music distribution is advancement from the conventional physical distribution method, such as CDs and delivers music directly to the users.

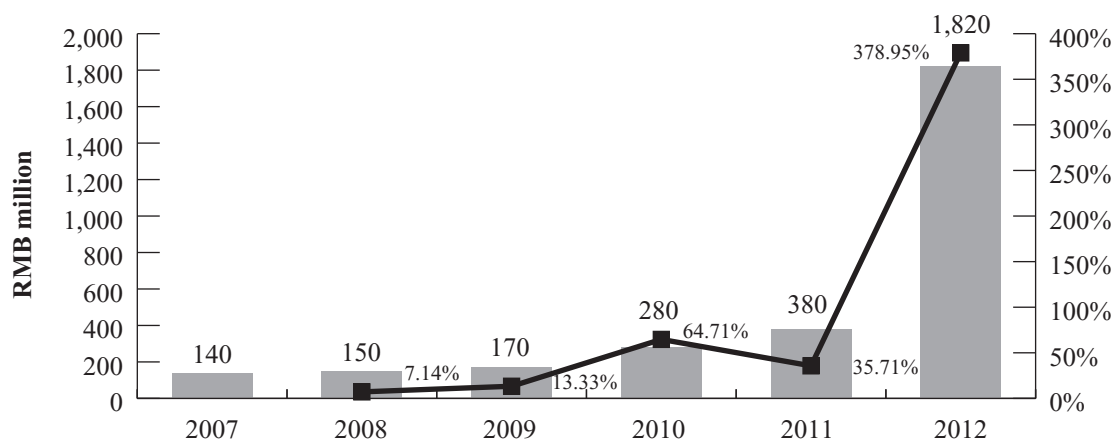
The development of the MP3 file format allows users to compress music files into a format at reasonable sound quality. Since then, it is much easier to transfer music files over the internet. The transition into the digital music platform has boosted sales in digital music market and lowered expenses such as lower coordination and distribution costs. With the advancement of network bandwidth capabilities, digital music distribution becomes prominent in 2000s.

Overview of Digital Music Distribution Market in the PRC

The digital music market in the PRC is at the age of rapid growth, potential users in the PRC are seeking many ways to search for their favorite music online. New type of service packages and new applications in digital music surges throughout the year, integrated together with the internet and mobile devices, the market expands rapidly.

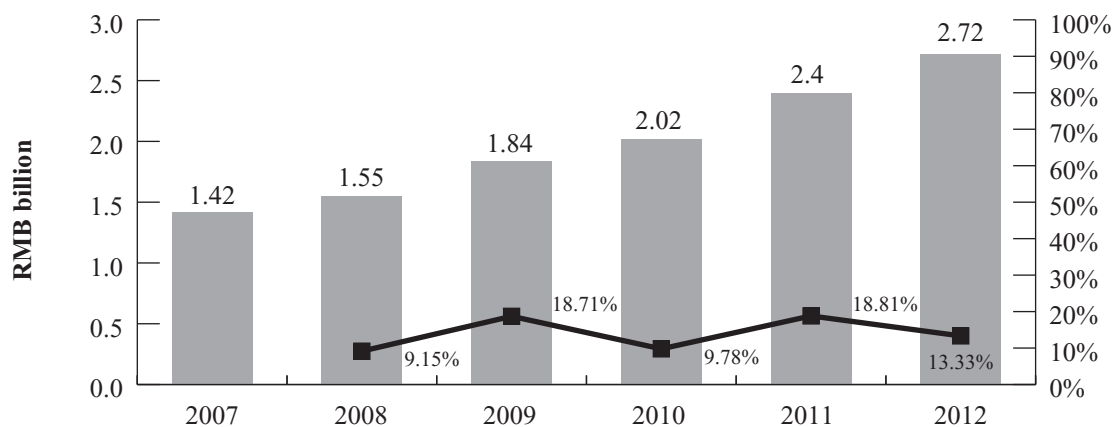
According to the 2012 China Digital Music Market Annual Report conducted by Ministry of Culture of the People’s Republic of China, music distribution through personal computers and internet surged to RMB1.82B (up 379% year on year) in 2012. On the other hand, music distribution through mobile platforms grew steadily from RMB2.4B to RMB2.7B, a 13.3% increase from 2011.

Size and Growth of Music Market through Internet and PC in the PRC



Source: 2012 China Digital Music Market Annual Report

Size and Growth of Mobile Music Market in the PRC



Source: 2012 China Digital Music Market Annual Report

The user base of the digital music market also expands along with the market size. According to the Report in 2012, the user base of digital music market through internet and PC in China rose to 435M, an increase of 13% from 385M in 2011; whereas the user base in mobile digital music platform approached 750M in 2012.

The digital music distribution platform adopts a unique business model which generates revenue mainly from three ways. The core one is the advertisements commission by which digital music company uses numerous registered users to attract advertisements. Second,

digital music company charges users for full downloading music; and lastly, it also provides specific enriched subscription package to individual users by providing high quality music and ad-free services on a regular basis. Others might include bundled games when playing music on the platform.

Major Factors Contributing to Growth

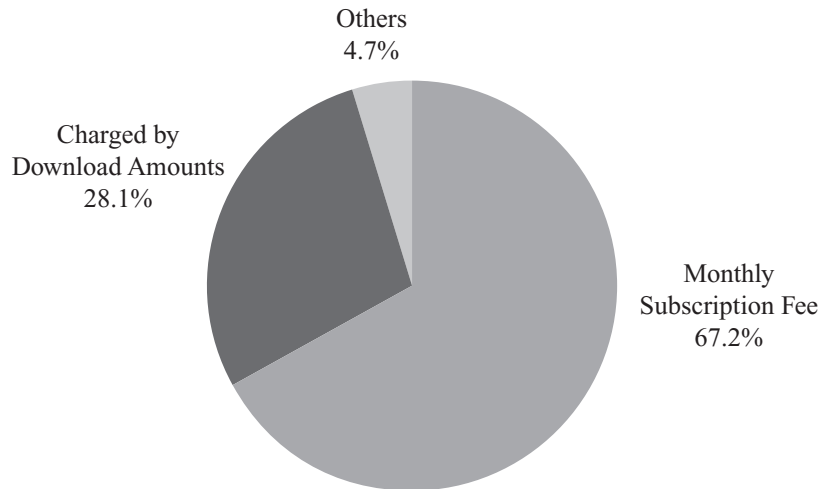
I. Trend of paid-download services in China

In recent years, value of patent rights rise significantly; the music right holders are forced to ask for an implementation of paid-download services on music providers so that their return could be protected from prevailing way of numerous free download.

Starting from Oct 2012, many major digital music platforms introduced products and marketing strategy focusing on paid-download services, though it is not fully implemented at the end of the campaign, it is expected that the trend will move towards paid services.

Among the mobile digital music market, if users are asked to pay for the music download, 67.2% of interviewees prefer monthly subscription fee, followed by charged by download amounts at 28.1%. Whichever the way users choose to pay, this confirms users would likely to pay the monthly subscription fee if paid-download is in force and boosts the profit of industry.

Mobile Music Users Pay Preference



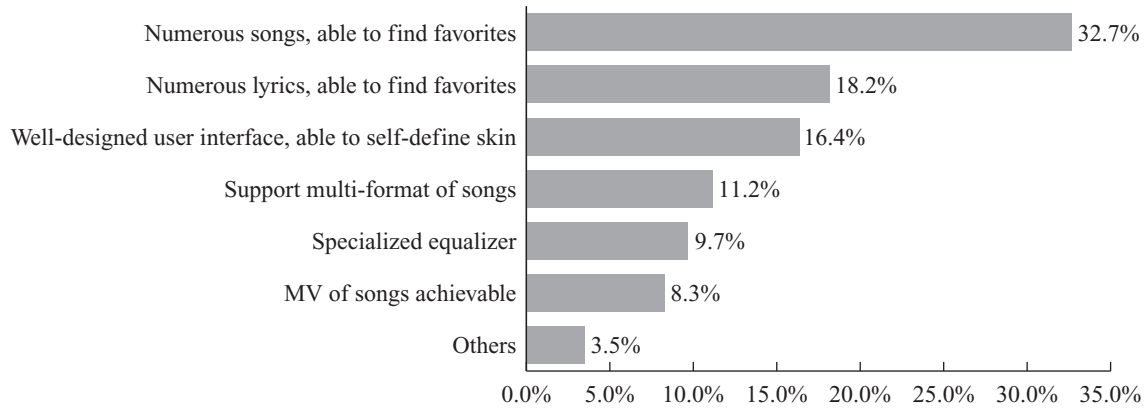
Source: 2012 China Digital Music Market Annual Report

II. Determining factors of using mobile music apps

With the advancement of mobile network, mobile music apps for mobile digital music become more widespread and diversified. Various mobile music apps are generally the same, however, vast amount of mobile users pay attention to the details, each music app has to differentiate itself from the others to attract users. In accordance with the 2013Q2 China Mobile Music Quarterly Research Report conducted by iiMedia Research Group, mobile

music users focus on number of tracks available, numbers of lyrics available and well-designed user interface, grounded by 32.7%, 18.2% and 16.4% of interviewees' voting rate respectively.

Most Concerned Mobile Music Apps Attributes in the PRC

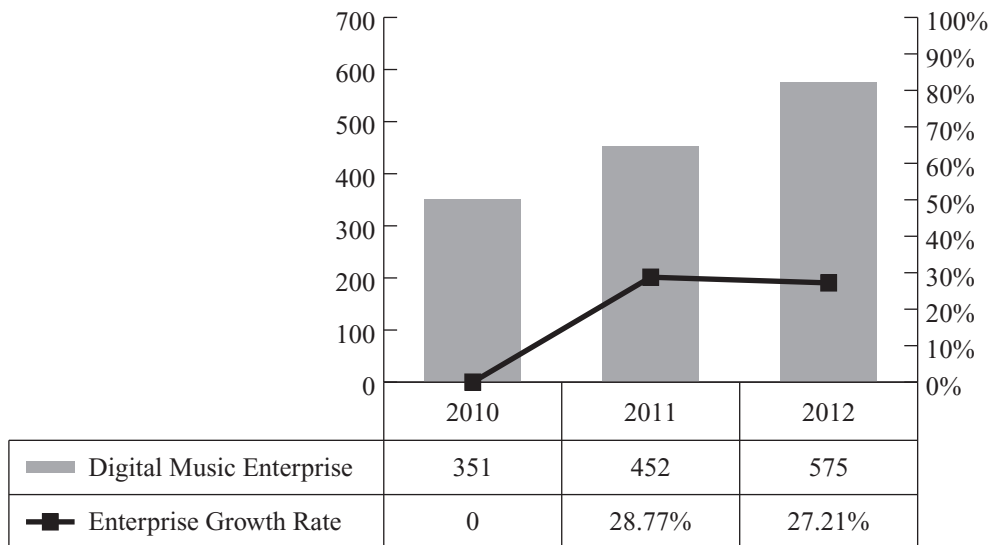


Source: 2013Q2 China Mobile Music Quarterly Research Report

Competitive Landscape in the PRC

Because of the tremendous market value of digital music and a low entry barrier, number of digital music enterprises increases yearly. Until the end of 2012, the number of digital music enterprises has grown to 575, counting an increment of 27.2% from 2011.

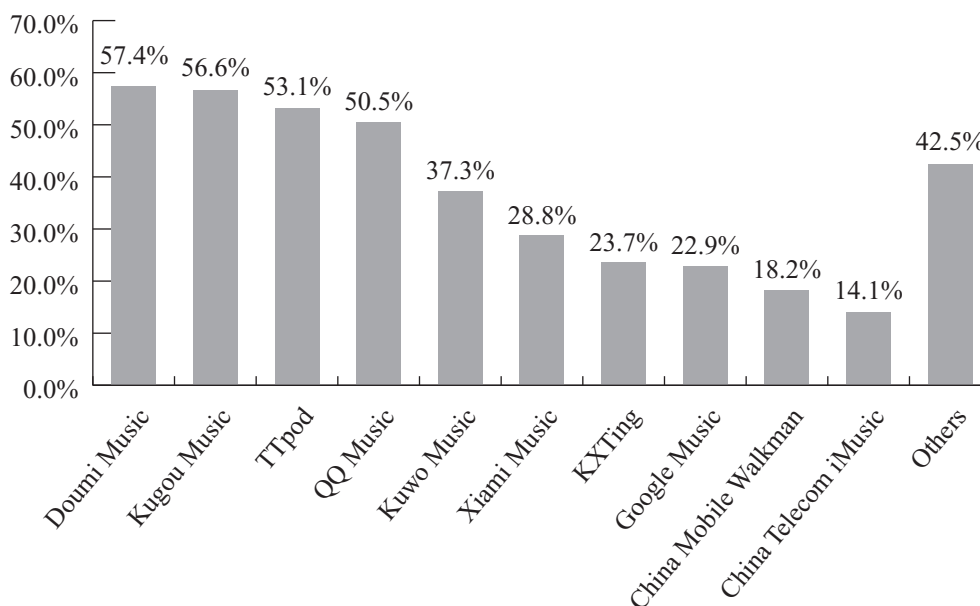
Digital Music Enterprises in the PRC



Source: 2012 China Digital Music Market Annual Report

The major market players in mobile digital music platform are all renowned in the PRC and they have been rated superior positions in both android and apple store ranking, for example Baidu Music, QQ Music, Duomi Music, etc. In 2013Q2, Duomi Music took the lead, with 57.4% among the mobile music app active users in the PRC. KuGou Music and TTPod followed the lead.

Mobile Music App Active User Distribution in the PRC



Source: 2013Q2 China Mobile Music Quarterly Research Report

The competitive market of digital music platform balances the market share of all participants; it is expected that each platform will specialize in different directions to optimize the user experience, so as to gain a bigger market share.

Development Cycle

At the beginning phrase of developing online digital music platform, company would face continuous loss as it takes time to gather users and utilize music platform, lots of capital is injected to carry on the development process whereas the revenue generated would remain low. Generally, online digital music company has to face years of loss, from 4 years to over 10 years, this poses a hard survival race in the music industry.

Pandora Media Inc. of USA started service in January 2000. It has over 200 million registered users, but as of 2013, it is still not profitable; WiMP launched 3 years ago focusing in northern Europe. Though its revenue is 4 times of that in first year, there is still no positive income contributed to the company.

On the other hand, some extraordinary injection of funding may remark an optimistic prospect of the target company. For instance, Mail.ru Group injected funding of USD 100 million in June 2011 in Spotify while net income of Spotify was recorded at GBP 7.5 million in 2010, after that, Spotify's net income was increased significantly to GBP 21 million. Mail.ru Group's investment may represent a signal of future growth.

After the online music platform matures with large horde of users, not only revenue of distributing music, but the source of advertising and games would also contribute to the company profit, resulting in an optimized scale of business.

BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the business enterprise of Duomi Group on the basis of fair market value. Fair Market Value is defined as the estimated amount at which the business enterprise might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business at its present location for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

Our investigation included discussions with the Management of the Company and Duomi (the "Management") in relation to the history and nature of Duomi Group's business, a review of the Duomi Group's historical and projected financial information, as well as other relevant documents such as the agreements signed by Duomi Group and telecom operators in the PRC. We have assumed that the data, information, opinions and representation provided to us by the Management in the course of the valuation are true and accurate. Before arriving at our opinion of value, we have considered the following principal factors:

- the nature of the business and the history of Duomi Group from its inception;
- the financial condition of Duomi Group and its book value;
- the economic outlook in general and the specific economic and competitive elements affecting Duomi Group's business, its industry and market;
- the potential of the target markets to be served;
- past operating result of Duomi Group;
- operating performance of publicly traded companies which are engaged in similar business to that of Duomi Group;
- the valuation of comparable listed companies and public transactions involving listed and private companies which are engaged in similar business to that of Duomi Group;

- financial and business risks of Duomi Group and inherent uncertainties involved in its operation;
- the number of registered users, active users and paid users of Duomi Group; and
- the agreements signed by Duomi Group with telecom operators in the PRC

Due to the changing environment in which Duomi Group is operating, a number of assumptions have to be established in order to sufficiently support our concluded fair market value of the business enterprise. The major assumptions adopted in this appraisal are:

- the average revenue per active user will be increased starting from 2014 due to the increase in potential mobile users by cooperation with major telecom operators in the PRC;
- the annualized average revenue per active user of the fourth quarter of 2013 is assumed to be a fair economic variable to reflect the latest revenue generating power of Duomi Group;
- value-added services including games and hardware would be developed to provide more diversified products and services that would generate growth for the music platform of Duomi Group;
- there will be no major changes in the existing political, legal, and economic conditions in countries in which Duomi Group operates that would materially affect the economic benefits attributable to Duomi Group;
- there will be no material changes in the industry Duomi Group is engaged in, which would materially affect the revenues, profits, cash flows attributable to Duomi Group;
- there will be no major changes in the current taxation law in the countries in which Duomi Group operates, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- effective tax rates will not differ materially from those presently prevailing;
- exchange rates and interest rates will not differ materially from those presently prevailing;
- Duomi Group will successfully maintain its competitiveness and market share through optimizing the utilization of its resources, expanding its marketing network, investing in content development and upgrading the online music distribution platform;
- Duomi Group will utilize and maintain its current operational, administrative and technical facilities to expand and increase its sales;

- the availability of finance will not be a constraint on the forecast growth of Duomi Group's operations;
- Duomi Group will be able to secure funds to repay its debts when they fall due;
- Duomi Group will retain and have competent management, key personnel, and technical staff to support its ongoing operations; and
- industry trends and market conditions for related industries will not deviate significantly from economic forecasts.

For the purpose of this valuation, we were furnished with historical and projected financial information, as well as records and documents by the Management. We have reviewed and examined the said information and have no reason to doubt the truth and accuracy of the information contained therein. We have also consulted public sources of business information about the industry to supplement the information provided by the Management. In arriving at our opinion of value, we have relied to a very considerable extent upon such data, records, documents, financial and business information from other sources, as well as a number of assumptions that are subjective and uncertain in nature. Any variation to these assumptions could seriously affect the fair market value of the appraised business enterprise.

VALUATION METHODOLOGY

We have considered the asset based approach, market approach and income approach for valuation of Duomi. Asset based approach is not adopted since it does not take into account the future value to be generated from assets (including the online platform and the value of the customer base) from the costs to reproduce the assets of the subject company as at the Appraisal Date. Since the income approach will involve more subjective judgments and estimation about future earnings that cannot be easily verified from contracts and agreements available as at the Appraisal Date, income approach is not preferred. Market approach is preferred in this case since it requires less judgment and assumptions on projection of future financial results.

In the market approach, we relied on Guideline Publicly Traded Company ("GPTC") method and Guideline Merger and Acquisition ("GMA") method to estimate the value of Duomi.

GPTC

In GPTC, the fair market value is based on prices at which stocks of similar companies are trading in a public market. A "value measure" is a multiple computed by dividing the consideration of the guideline company by some relevant economic variable(s) observed or calculated from the guideline companies' financial fundamentals(s) (such as net profit, earnings before interest, taxes, depreciation and amortization, book value etc.) as at the Appraisal Date. In subject valuation, the number of active users is considered a suitable

economic variable for online music distribution platform to determine the value measure, i.e. value per active user, which will be explained further in the section “Economic Variables Adopted and Calculation”.

A major requirement in applying the GPTC method is to identify companies that are comparable to the subject company in terms of business nature and associated risks. We have selected two comparable companies listed on NASDAQ and New York Stock Exchange, namely (1) Pandora Media Inc. (ticker symbol: P US) and (2) YY Inc. (ticker symbol: YY US). In practice, we have selected comparable companies based on the following relevant factors: (1) products, (2) markets, (3) earnings and growth, (4) capital structure, (5) nature of competition and (6) the characteristics of driving underlying investment risk and expected rate of return. All comparable companies are engaged in similar business in operating a music platform.

The business descriptions of the comparable listed companies are summarized below:

1. Pandora Media Inc. (“Pandora”) provides radio services through the internet. Pandora offers radio stations available to stream on computers and mobile phones. Pandora’s services allow users to search on their favorite artists, genres, and songs while Pandora selects “stations” that match or are similar to their search.
2. YY Inc. (“YY”) is a communication social platform that engages users in real-time online group activities through voice, text and video. YY’s platform is currently free, the company monetizes its user base through internet services, or IVAS, and online advertising.

GMA

In GMA, the fair market value is based on the comparable transaction prices at which assets similar to that of the subject company are being acquired.

GMA provides an indication of value by comparing the prices at which similar properties have exchanged between willing buyers and sellers. When GMA is used, an indication of the value is obtained by referring to the consideration for acquisition of comparable companies. Requirements for successful use of this method include:

1. Existence of past transactions of comparable companies;
2. Access to pricing information; and
3. Arm’s length transactions between independent parties.

The business descriptions of the comparable companies are summarized below:

1. KKBOX Inc. (“KKBOX”) offers music subscription services. KKBOX serves the greater China region and delivers unlimited music streaming and download service accessible by PC, Smartphone, and Internet radios.

2. Spotify Ltd. (“Spotify”) provides online digital music services. Spotify offers music fans with access to catalogues of licensed music, as well as enables on-demand streaming of audio content. Spotify delivers its music services to customers throughout global networks.
3. Deezer operates a free online music streaming service. Deezer provides hardware and software for uploading and downloading music, offers advertising to outside companies, and maintains all equipment and resources necessary to accommodate users. Deezer serves musicians, enthusiasts, and other businesses through the internet worldwide.
4. SoundCloud Ltd. (“SoundCloud”) hosts a web audio platform. SoundCloud enables users to create original sounds, upload and share content, and connect with other artists online. SoundCloud serves the music industry around the world.

ECONOMIC VARIABLES ADOPTED AND CALCULATION

In applying the GPTC and GMA method, different value measures of the comparable transactions are usually calculated and analyzed to deduce a series of multiples that are considered representative of the industry average. Then, we applied the relevant industry multiples to the subject company to determine a value for the subject company that is on a freely-traded basis. Duomi has short operating history and recorded net loss, so price to earnings multiples could not be adopted. Price to book multiple could not be adopted since it does not reflect the value of the user base and the online music platform established

Value per active user is an appropriate economic variable used for accessing fast growing e-commerce or internet business with its revenue largely dependent on number of users. For e-commerce or internet businesses, value per active user can usually be used as one of the key drivers of value since the number of regular customer or subscribers would potentially boosts the future value of the business. Value can be sustained once the internet business can sustain a reasonable amount of active user base. Specifically, we applied the median of adjusted value per active user for valuation the fair market value of Duomi.

The adjusted value per active user is derived by the following formula:

$$\begin{aligned} \text{value per active user} &= \frac{\text{total market value of the comparable listed company or}}{\text{transaction/total number of active users}} \\ \text{adjusted value per} &= \frac{\text{value per active user x average revenue per active user of}}{\text{active user}} \quad \text{Duomi/average revenue per active user of comparable company} \end{aligned}$$

The average revenue per active user of Duomi is provided by the Management based on historical records in 2013. The average revenue per active user of the comparable listed company in GPTC was determined by dividing the latest revenue as at the Appraisal Date by the active user base as disclosed from the comparable company’s website. The average revenue per active user of the comparable companies in GMA was determined by dividing the latest revenue as at the transaction date by the active user base as disclosed from the

public source. The active user data does not represent the exact number but an approximation of active users as at the comparable transaction dates. However, since the dates of comparable transactions are considered close to the Appraisal Date, the active user base statistic applied still serves a close approximate of active user base for the comparable transactions.

In this appraisal, the fair market value of the Duomi depends on the median of adjusted value per active user derived from GPTC and GMA during the period between March 2011 to the Appraisal Date. The indicated value is the product of the median of adjusted value per subscriber of RMB13.77 from comparable companies and transactions and 22,628,932 active users as supported by the latest user statistics which is then adjusted by control premium, marketability discount and size discount.

PREMIUM FOR MAJORITY CONTROL

It is widely recognized that an investment which offers an investor control of a business is worth more than a minority stake. In valuation perspective, a shareholder with majority stake normally owns the control power in a company, and thus, a control premium is generally recognized. In contrast, a minority discount is recognized when the holder of a minority interest lacks control over corporate policies like election of directors or selection of management, acquisition or liquidation of assets, control over dividend policy, ability to set corporate strategies, ability to affect future earnings, etc.

Since the effective equity interest to be appraised represents a 100% equity interest in Duomi, a premium for majority interests of 10% is applied to the indicated fair value of the business enterprise derived by the abovementioned method to reflect the fair market value of holding a controlling stake. It is deemed to be a reasonable premium for a majority equity interest in a private company in the PRC. In determining the reasonable control premium, we have made reference to the “Mergerstat Review 2013” by FactSet Mergerstat, LLC which included data derived from market transactions involving U.S. companies, including privately held, publicly traded and cross-border transactions.

DISCOUNT FOR LACK OF MARKETABILITY

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

A number of studies were conducted in the U.S. in an attempt to determine average levels of discounts for lack of marketability. These studies all fall into one of the following two basic categories, depending on the type of market transaction data on which they are based:

- Restricted (“letter”) stock studies.
- Studies of transactions in closely held stocks prior to initial public offerings (IPOs).

Currently there is no widely used empirical study conducted on lack of marketability discount for private companies in Hong Kong or PRC. Most studies on lack of marketability were based on transactions or data in the US. In this case, a lack of marketability discount of 20% is applied to the indicated fair market value of the business enterprise derived by the GPTC method which is deemed to be reasonable for a private company like Duomi. In determining the reasonable lack of marketability discount, we have made reference to the “Mergerstat Review 2013” by FactSet Mergerstat, LLC which included data derived from market transactions involving U.S. companies, including privately held, publicly traded and cross-border transactions.

DISCOUNT FOR SIZE EFFECT

Size effect is the concept that the smaller the company the greater the risk and thus the higher the companies’ cost of capital. The factors that contribute to smaller companies having increased risk include lack of product diversity, industry and geographic diversification, higher sensitivity to economic environment, and less access to capital. Empirical studies have proven that large companies tend to be less risky than smaller companies. This phenomenon would generally result in a lower present value discount rate and a higher price for larger companies.

In this case, a discount for size of 12% is applied to the indicated fair market value of the business enterprise derived by the GPTC and GMA method which is deemed to be reasonable for a small scaled company like Duomi. In determining the reasonable size discount, we have made reference to the “2014 Valuation Handbook – Guide to Cost of Capital” by Duff & Phelps, LLC which included data derived from the size study which consists of a cross section of company data drawn from the database of the Center for Research in Security Prices (CRSP) at the University of Chicago and the Standard & Poor’s Research Insight database.

SENSITIVITY ANALYSIS

The application of median of adjusted value per active user implied from comparable companies and transactions and the number of active user are important assumptions to the valuation and sensitivity analysis below indicated how the fair market value is affected by a change in adjusted value per active user and a change in number of active user as supported by latest user statistics provided by the Management.

Sensitivity analysis based on RMB13.77 adjusted value per active user:

Adjusted value per active user (RMB)	Indicated Fair Market Value of 100% Interest of Duomi
7.57 (-45%)	RMB171 million
8.95 (-35%)	RMB203 million
10.33 (-25%)	RMB234 million
11.70 (-15%)	RMB265 million
13.77	RMB312 million
15.84 (+15%)	RMB358 million
17.21 (+25%)	RMB389 million
18.59 (+35%)	RMB421 million
19.97 (+45%)	RMB452 million

Sensitivity analysis based on 22,628,932 active users:

Number of Active User	Indicated Fair Market Value of 100% Interest of Duomi
12,445,913 (-45%)	RMB171 million
14,708,806 (-35%)	RMB203 million
16,971,699 (-25%)	RMB234 million
19,234,592 (-15%)	RMB265 million
22,628,932	RMB312 million
26,023,272 (+15%)	RMB358 million
28,286,165 (+25%)	RMB389 million
30,549,059 (+35%)	RMB421 million
32,811,952 (+45%)	RMB452 million

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that the total fair market value of the business enterprise of Duomi as at 31 December 2013 is reasonably stated by the amount of REMINBI THREE HUNDRED ELEVEN MILLION AND SIX HUNDRED THOUSAND (RMB311,600,000) ONLY.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The valuation is in conformity with the International Valuation Standards issued by the International Valuation Standards Council (the “IVSC”).

We hereby certify that we have neither present nor prospective interests in the Company and its subsidiaries, Duomi and its subsidiaries appraised, or the value reported.

Respectfully submitted,

For and on behalf of

GRANT SHERMAN APPRAISAL LIMITED

Keith C.C. Yan, ASA

Managing Director

Kelvin C.H. Chan, FCCA, CFA

Director

Note: Mr. Keith C.C. Yan is an Accredited Senior Appraiser(ASA) (Business Valuation/ Intangible Assets) of the American Society of Appraisers and he has been conducting business valuation of various industries and intangible assets valuation in Hong Kong, the PRC and the Asian region for various purposes since 1988. Mr. Kelvin C.H. Chan is a CFA Charterholder and a fellow member of the Association of Chartered Certified Accountants. He has been working in the financial industry since 1996, with experiences covering the area of corporate banking, equity analysis and business valuation.

Investigation and report by:

Keith C.C. Yan, ASA

Kelvin C.H. Chan, FCCA, CFA

Max K.P. Tsang, CFA, FRM

Keith Y.K. Lui

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 (Note 1)
		Ordinary Shares	Underlying Shares (under equity derivatives of the Company)	Total	
Mr. Liu	Founder of trust (Note 2)	508,746,810	Nil	522,710,120	36.58%
	Beneficial owner	5,766,000	8,197,310		
Mr. Lu Bin	Beneficial owner	Nil	3,938,910	3,938,910	0.28%

Note:

- The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at the Latest Practicable Date (i.e. 1,428,847,128 Shares).
- 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 Latest Practicable Date, Prime Century directly held 367,115,715 Shares and Ever Novel directly held 141,631,095 Shares.

(II) Long positions in associated corporations of the Company

Name of associated corporation	Name of Director	Nature of interest	Long positions in the registered capital (RMB)/No. of shares held	Approximate percentage of interest in the associated corporation's registered capital
Shenzhen Huadong Feitian Network Development Co., Ltd. (" Huadong Feitian ") (Note 1)	Mr. Liu	Beneficial owner	21,510,000 (Note 3)	75.00%
Duomi Music (Note 2)	Mr. Liu	Interest of controlled corporation	35,435,640 (Note 4)	30.13%

Notes:

- Huadong Feitian is a limited liability company incorporated in China which 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.
- Duomi Music is a company incorporated in the Cayman Islands with limited liability. As at Latest Practicable Date, the Company was interested in approximately 42.73% (assuming no option under the existing ESOP has been exercised) of the issued share capital of Duomi Music through its wholly-owned subsidiary, Phoenix Success, and therefore Duomi Music is an associated corporation of the Company. Mr. Liu, through his wholly-owned company, Fortune Light Investment, held approximately 30.13% (assuming no option under the existing ESOP has been exercised) of the issued share capital of Duomi Music.
- This represents the amount of registered capital of Huadong Feitian held by Mr. Liu.
- This represents the number of shares of Duomi Music held by Mr. Liu.

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.

(III) 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 (Note 1)
		Ordinary Shares	Total	
HSBC International Trustee Limited	Trustee (other than a bare trustee) (Note 2)	573,636,810	573,636,810	40.14%
River Road Investment Limited	Interest in controlled corporation (Note 2)	508,746,810	508,746,810	35.61%
Knight Bridge Holdings Limited	Interest in controlled corporation (Note 2)	508,746,810	508,746,810	35.61%
Ever Novel	Interest in controlled Corporation (Notes 2 & 3) Beneficial Owner (Notes 2 & 3)	367,115,715 141,631,095	508,746,810	35.61%
Prime Century	Beneficial Owner (Notes 2 & 3)	367,115,715	367,115,715	25.69%

Notes:

- The percentage of interest in the Company is calculated by reference to the number of Shares in issue as at Latest Practicable Date (i.e. 1,428,847,128 Shares).

2. HSBC International Trustee Limited 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 (573,546,810 Shares in total). The rest 90,000 Shares is held by HSBC International for its other clients.
3. As at Latest Practicable Date, Prime Century directly held 367,115,715 Shares and Ever Novel directly held 141,631,095 Shares. Ever Novel was entitled to exercise or control the exercise of one third or more of the voting power at the general meeting of Prime Century and was deemed to be interested in the 367,115,715 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

Mr. Liu Xiaosong, the Chairman and an executive Director, had entered into two service contracts with the Group respectively for his role as a Director and the chief executive officer (“CEO”) of the Group. The Director service contract is for a term of three years commencing 24 March 2014 and ending on 24 March 2017, unless and until terminated by either the Company or Mr. Liu giving to the other not less than 3 months’ prior written notice or payment in lieu of such notice. Pursuant to his Director service contract, Mr. Liu is entitled to a fixed annual remuneration of HK\$615,000 (equivalent to approximately RMB492,615) and the same allowances and pension benefits enjoyed by other employees of the Company. During the year ended 31 December 2013, the aggregate remuneration paid to Mr. Liu for these two roles was approximately RMB942,000. None of these service contracts has been replaced or amended.

Mr. Lu Bin, an executive Director, had entered into two service contracts with the Group respectively for his role as a Director and the chief financial officer (“CFO”) of the Group. The Director service contract is for a term of three years commencing from 19 August 2011 ending on 18 August 2014, unless and until terminated by either the Company or Mr. Lu giving to the other not less than 3 months’ prior written notice or payment in lieu of such notice. Pursuant to his Director service contract, Mr. Lu is entitled to a fixed annual remuneration of HK\$624,000 (equivalent to approximately RMB499,824) and the same allowances and pension benefits enjoyed by other employees of the Company. During the year ended 31 December 2013, the aggregate remuneration paid to Mr. Lu for these two roles was approximately RMB979,000. None of these service contracts has been replaced or amended.

Mr. Chan Yiu Kwong, an independent non-executive Director, had entered into a service contract with the Company for a term of three years commencing from 24 March 2014 and ending on 24 March 2017, unless and until terminated by either the Company or

Mr. Chan giving to the other not less than 3 months' prior written notice or payment in lieu of such notice. Pursuant to the service contract, Mr. Chan is entitled to a fixed annual remuneration of HK\$180,000. There is no variable remuneration payable under Mr. Chan's service contract with the Company. This service contract has not been replaced or amended.

Ms. Wu Shihong, an independent non-executive Director, had entered into a service contract with the Company for a term of three years commencing from 27 March 2012 and ending on 26 March 2015, unless and until terminated by either the Company or Ms. Wu giving to the other not less than 3 months' prior written notice or payment in lieu of such notice. Pursuant to the service contract, Ms. Wu is entitled to a fixed annual remuneration of HK\$90,000. There is no variable remuneration payable under Ms. Wu's service contract with the Company. This service contract has not been replaced or amended.

Mr. Song Ke, an independent non-executive Director, had entered into a service contract with the Company for a term of three years commencing from 30 May 2013 and ending on 30 May 2016, unless and until terminated by either the Company or Mr. Song giving to the other not less than 3 months' prior written notice or payment in lieu of such notice. Pursuant to the service contract, Mr. Song is entitled to a fixed annual remuneration of HK\$90,000. There is no variable remuneration payable under Mr. Song's service contract with the Company. This service contract has not been replaced or amended.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group (i) which has been entered into or amended within 6 months before the Latest Practicable Date; (ii) which is continuous contract with a notice period of 12 months or more; (iii) which is fixed term contract with more than 12 months to run irrespective of the notice period; and (iv) which 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

Phoenix Success subscribed 13,853,868 Preferred A Shares of Duomi Music for the consideration of US\$6 million pursuant to a subscription agreement dated 17 September 2012. As at the Latest Practicable Date, Mr. Liu, as an executive Director and controlling shareholder of the Company, through Fortune Light Investment, owned 30.13% shares of Duomi Music.

Saved as disclosed above, none of the Directors had any direct or indirect interest in any assets which have, since 31 December 2013 (being the date to which the latest audited financial statements of the Group were made up) and up to the Latest Practicable Date, 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.

As at the Latest Practicable Date, save for Mr. Liu, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group and subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

5. LITIGATION

None of the member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material important known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, since 31 December 2013, being the date to which the latest audited financial statements of the Group were made up, the Directors confirmed that there has not been any material adverse change in the financial or trading position of the Group.

7. MATERIAL CONTRACTS

During the two years immediately preceding the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group and are or may be material:

- (a) the share subscription agreement dated 17 September 2012 and entered into between Duomi Music, Boundless Melody Hong Kong Limited, 北京歡舞悅動網絡科技有限公司 (Beijing Huanwu Yuedong Internet Technology Co., Ltd.), 北京彩雲在綫技術開發有限公司 (Beijing Rainbow Online Technology Co. Ltd.), Shi Jimmy Jian-Ping, Feng Yousheng, Mr. Liu, Bile Investments Limited, Beyond Faith Limited, Hero Victory Investments Limited, Fortune Light Investment, Phoenix Success Huayi Brothers and Hina Group Fund L.P. in relation to, among other matters, the subscription of 13,853,868 Preferred A Shares for the consideration of US\$6 million, further details of which are set out in the circular of the Company dated 20 November 2012;
- (b) the shareholders agreement dated 17 September 2012 and entered into by Duomi Music, Boundless Melody Hong Kong Limited, 北京歡舞悅動網絡科技有限公司 (Beijing Huanwu Yuedong Internet Technology Co., Ltd.), 北京彩雲在綫技術開發有限公司 (Beijing Rainbow Online Technology Co., Ltd.), 北京好音味網絡科技有限公司 (Beijing Haoyinwei Internet Technology Co., Ltd.), 北京勉致網絡科技有限公司 (Beijing Mianzhi Internet Technology Co., Ltd.), 深圳市馨笙同音科技有限公司 (Shenzhen Qingsheng Tongyin Technology Co., Ltd.), 深圳市匯音創世科技有限公司 (Shenzhen Huiyin Chuangshi Technology Co., Ltd.), 深圳市開心聽信息科技有限公司 (Shenzhen Kaixinting Information and Technology Co., Ltd.), Shi Jimmy Jian-Ping, Feng Yousheng, Mr. Liu, Bile Investments Limited, Beyond Faith Limited, Hero Victory Investments Limited, Fortune Light Investment, Phoenix Success Huayi Brothers and Hina Group Fund L.P. in relation to, among other matters, the management of Duomi Music as well as the ownership of shares in Duomi Music and there is no consideration involved in this agreement;

- (c) the underwriting agreement entered into between the Company and Ever Novel dated 4 January 2013 in relation to the rights issue, as amended by the First Supplemental Underwriting Agreement and the Second Supplemental Underwriting Agreement (the “Underwriting Agreement”);
- (d) the supplemental agreement dated 10 January 2013 entered into between the Company and Ever Novel to amend certain terms of the Underwriting Agreement (the “First Supplemental Underwriting Agreement”);
- (e) the supplemental agreement dated 25 January 2013 entered into between the Company and Ever Novel to amend certain terms of the Underwriting Agreement (the “Second Supplemental Underwriting Agreement”); and
- (f) the Subscription Agreement.

8. COMPETING INTEREST

References are made to the circular of the Company dated 20 November 2012 and announcements of the Company dated 14 December 2012, 16 January 2013 and 26 February 2013, Mr. Liu, as an executive Director, through Fortune Light Investment, owned 30.13% shares of Duomi Music as at the Latest Practicable Date. Duomi Music and its subsidiaries are principally engaged in providing online and connected digital music services directly to consumers.

Save as disclosed above, 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).

9. 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
Donvex Capital Limited	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Grant Sherman Appraisal Limited	independent valuer

Donvex Capital Limited and Grant Sherman Appraisal Limited have given and have not withdrawn their written consent to the issue of this circular with the inclusion of their letters, reports and/or references to their names or opinions in the form and context in which they appear.

As at the Latest Practicable Date, neither Donvex Capital Limited nor Grant Sherman Appraisal Limited was 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, neither Donvex Capital Limited nor Grant Sherman Appraisal Limited has any direct or indirect interest in any assets which had since 31 December 2013 (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.

10. 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.

11. 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:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for the two financial years ending on 31 December 2013;
- (c) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” on page 34 of this circular;
- (d) the letter from Donvex Capital Limited containing its advice to the Independent Board Committee and Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Financial Adviser” on pages 35 to 51 of this circular;
- (e) the Valuation Report on Duomi Music, the text of which is set out in Appendix I on pages 52 to 66 of this circular;
- (f) the written consents as referred to in the paragraph headed “Experts and Consents” in this Appendix;
- (g) the material contracts referred to under the section headed “Material Contracts” in this Appendix; and
- (h) this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



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 18 June 2014, 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 conditional subscription agreement (the “**Subscription Agreement**”) dated 9 April 2014 entered into between Phoenix Success Limited (“**Phoenix Success**”), a wholly-owned subsidiary of the Company, as subscriber and Duomi Music Holding Limited (多米音樂控股有限公司) (“**Duomi Music**”) as issuer, pursuant to which Duomi Music shall conditionally issue, and Phoenix Success shall conditionally subscribe for, the convertible note(s) (the “**Convertible Note**”) by cash consideration with an aggregate principal amount of US\$22,910,000 in two tranches, which entitles Phoenix Success to convert the whole or part of such principal amount of the Convertible Note into the new shares to be issued by Duomi Music at such conversion price to be determined in accordance with the terms of the Convertible Note (a copy of which is produced to the Meeting marked “A” and signed by the Chairman of the Meeting for the purpose of identification), and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company be and is hereby authorized to do all such things and acts as he/she may in his/her discretion considers as necessary, expedient or desirable for the purpose of or in connection with the implementation of the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the execution of all such documents under seal where applicable, as he/she considers necessary or expedient in his/her opinion to

NOTICE OF EXTRAORDINARY GENERAL MEETING

implement and/or give effect to the subscription for the Convertible Note, and the taking of all necessary actions to implement the transaction contemplated under the Subscription Agreement.

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

Hong Kong, 30 May 2014

Registered Office:
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Suite 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 the Company comprises:

- (1) Executive Directors namely Mr. Liu Xiaosong and Mr. Lu Bin; and
- (2) Independent Non-Executive Directors namely Mr. Chan Yiu Kwong, Ms. Wu Shihong and Mr. Song Ke.