Neo Telemedia Limited
中國新電信集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8167

THIRD QUARTERLY REPORT
2009–2010

For the three months and nine months ended
31 March 2010

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This document, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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:

1. the information contained in this document is accurate and complete in all material respects and not misleading;

2. there are no other matters the omission of which would make any statement in this document misleading; and

3. all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

UNAUDITED RESULTS

The board of directors (the "Board") of Neo Telemedia Limited (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the three months and nine months ended 31 March 2010 together with comparative unaudited figures for the corresponding period of 2009 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended 31 March		For the nine months ended 31 March	
		2010	2009	**2010**	2009
		(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*3*	**13,471**	14,129	**24,299**	41,293
Cost of sales		**(9,998)**	(12,337)	**(17,752)**	(34,792)
Gross profit		**3,473**	1,792	**6,547**	6,501
Other revenues	*3*	**2,892**	141	**2,990**	268
Selling and marketing costs		**(1,206)**	(4,482)	**(3,673)**	(14,528)
Administrative and other expenses		**(5,038)**	(3,216)	**(14,505)**	(13,995)
Profit (loss) from operating activities		**121**	(5,765)	**(8,641)**	(21,754)
Finance costs		**(3)**	(12)	**(16)**	(19)
Profit (loss) before income tax		**118**	(5,777)	**(8,657)**	(21,773)
Income tax expenses	*4*	**—**	—	**—**	—
Profit (loss) for the period attributable to:					
Owners of the Company		**118**	(5,777)	**(8,657)**	(21,773)
Earnings (loss) per share	*5*				
— basic *(in HK cents)*		**0.0009**	(0.05)	**(0.07)**	(0.17)
— diluted *(in HK cents)*		**N/A**	N/A	**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended 31 March		For the nine months ended 31 March	
	2010	2009	**2010**	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Profit (loss) for the period	**118**	(5,777)	**(8,657)**	(21,773)
Other comprehensive income (loss):				
Exchange difference arising on translation of foreign operations	**108**	—	**(3)**	—
Total comprehensive income (loss) for the period	**226**	(5,777)	**(8,660)**	(21,773)
Attributable to:				
Owners of the Company	**226**	(5,777)	**(8,660)**	(21,773)

Notes:

1. GENERAL INFORMATION

Neo Telemedia Limited (the "Company") was incorporated in the Cayman Islands on 11 April 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands.

The Group is principally engaged in (i) the production and sales of videos and films, licensing of video and copyrights/film rights, (ii) artiste management and (iii) sales of telecommunication products.

These unaudited condensed consolidated results are presented in thousands of units of HK dollars (HK$'000), unless otherwise stated.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certificate Public Accountants ("HKICPA"). The unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

The preparation of condensed consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("New HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 July 2009. The adopting of the new HKFRSs has had no material effect on the Group's financial statements.

The accounting policies have been consistently applied by the Group and are consistent with those used in the 2009 annual report.

3. TURNOVER AND OTHER REVENUES

Turnover represents licensing and sub-licensing fee income, income from artiste management and sales of telecommunication products.

An analysis of the Group's turnover and other revenues is as follows:

	For the three months ended 31 March		**For the nine months ended 31 March**	
	2010	2009	**2010**	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Licensing and sub-licensing fee income	**9,300**	13,002	**17,557**	38,382
Income from artiste management	**983**	1,127	**3,506**	2,911
Sales of telecommunication products	**3,188**	—	**3,236**	—
Turnover	**13,471**	14,129	**24,299**	41,293
Other revenues	**2,892**	141	**2,990**	268
Total revenues	**16,363**	14,270	**27,289**	41,561

4. INCOME TAX EXPENSES

Under the Law of the People's Republic of China on Corporate Income Tax (the "CIT Law") and Implementation Regulation of the CIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. No income tax has been provided as the Group did not generated any assessable profits or had available tax losses brought forward to offset the assessable profits generated during the period (2009: Nil).

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax was calculated at 16.5% (2009: 16.5%) of the estimated profit for the period. No provision for Hong Kong Profits Tax has been made for the three months and nine months ended 31 March 2010 as the Group does not have any assessable profit subject to Hong Kong Profits Tax for the periods.

The Group has no material unprovided deferred taxation for the three months and nine months ended 31 March 2010 (2009: Nil).

5. EARNINGS (LOSS) PER SHARE

The basic earnings per share for the three months and nine months ended 31 March 2010 are calculated based on the unaudited consolidated profit attributable to owners of the Company of approximately HK$118,000 and loss of HK$8,657,000 respectively (2009: loss of approximately HK$5,777,000 and HK$21,773,000 respectively) and based on the weighted average number of approximately 12,725,363,000 shares in issue during the periods (2008: 12,500,000,000 shares).

No diluted earnings (loss) per share have been presented for the three months and nine months ended 31 March 2010 and 2009 as there was no dilutive potential ordinary share outstanding for both periods.

6. SHARE CAPITAL AND RESERVES

	Issued share capital	**Share premium**	**Capital reserve**	**Exchange reserve**	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2008 (audited)	125,000	28,463	17,590	—	(100,158)	70,895
Total comprehensive loss for the period (unaudited)	—	—	—	—	(21,773)	(21,773)
At 31 March 2009 (unaudited)	125,000	28,463	17,590	—	(121,931)	49,122
At 1 July 2009 (audited)	125,000	28,463	17,590	—	(133,993)	37,060
Issue of shares for consideration in respect of acquisition of investment *(Note a)*	3,632	50,848	—	—	—	54,480
Total comprehensive loss for the period (unaudited)	—	—	—	(3)	(8,657)	(8,660)
At 31 March 2010 (unaudited)	128,632	79,311	17,590	(3)	(142,650)	82,880

Note a: Pursuant to the announcement dated 10 June 2009 and 10 September 2009, the acquisition of the entire issued share capital of China Wimetro Communications Company Limited was completed on 9 September 2009. According to the sale and purchase agreement dated 5 June 2009 and the Company's announcement dated 12 October 2009, 363,200,000 ordinary shares have been allotted and issued by the Company to Mr. Lee Tak Ming (the "Vendor") and parties nominated by the Vendor on 12 October 2009.

And, as at 31 March 2010, there is 544,800,000 ordinary shares with an issue price of HK$0.15 have not yet allotted to Vendor and parties nominated by the Vendor.

7. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 31 March 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the three months ended 31 March 2010, the Group recorded a turnover of approximately HK$13,471,000 (2009: HK$14,129,000), representing a decrease of approximately HK$658,000 or approximately 4.66%, mainly because there are no new film release with greater impacts during the period.

The Group recorded a profit for the period of approximately HK$118,000 for the three months ended 31 March 2010 compared with the corresponding period last year of loss of approximately HK$5,777,000, mainly due to the well-developed telecommunications value-added services and enhanced cost control. As the results had improvement compared with the corresponding period last year and the expected turnover will increase steadily (a turnaround compared with the corresponding period last year), in view of this, the Company has issued a positive profit alert announcement dated 8 April 2010.

Gross profit for the three months ended 31 March 2010 was approximately HK$3,473,000, representing an increase of approximately HK$1,681,000 or approximately 93.81%. Gross margin for the three months ended 31 March 2010 was 25.78%, compared to approximately 12.68% over the corresponding period last year. Though the gross profit experienced an increase than the corresponding period last year, the decrease of turnover resulted in insignificant profit generated.

Business review

The Group maintains its fixed-core business in three main areas, including licensing and sub-licensing fee income, income from artiste management and telecommunication value-added business income. Cost of sales for the three months ended 31 March 2010 was approximately HK$9,998,000, compared to approximately HK$12,337,000 over the corresponding period last year, representing a decrease of approximately HK$2,339,000 or approximately 18.95%. The total operating cost (excluding cost of sales) for the three months ended 31 March 2010 was approximately HK$6,244,000, representing a decrease of approximately HK$1,454,000 or approximately 18.89% compared with the corresponding period last year. The administrative and other expenses for the three months ended 31 March 2010 represented 80.69% of total operating costs. It increased approximately HK$1,822,000 or approximately 56.65% compared with the corresponding period last year, mainly due to the increase of staff salaries, equipment depreciation and related administrative costs to expand business.

The selling and marketing costs for the three months ended 31 March 2010 of approximately HK$1,206,000, accounting approximately 19.31% of total operating costs. It decreased approximately HK$3,276,000, or approximately 73.09% as compared with corresponding period last year. Following a wholly-owned subsidiary of the Company, becomes as the sole partner in Guangdong Province of Baidu (百度公司)'s map search business, the business is currently developing.

Business outlook and prospects

The Group has progressively achieved cooperation with Broadcast Television Network (廣電網) and made investments on projects, and intended to establish partnership with China Unicom. With continuously rapid development of internet in Mainland, demands for mobile value-added services are driven by "Triple Mix (三網融合)", and various business will exhibit continuous increase. The Group is actively expanding the communication market outside Hong Kong with smooth progress. Each business commenced in Mainland showed good development. While expanding the PRC market under active and cautious strategies and boosting business growth, the Group also developed new business for movie media through combination with original movie businesses, and made a lot of exploration in enterprise development model, market operation model and other aspects, so as to launch brand new services of new communication and media. Meanwhile, the Group is actively seeking for overseas investment opportunity, enhancing our position as a telecom operator, and will raise the technology proportion in the Group's business and change the Group's business direction and category of growth gradually, enabling a higher business volume for the Group.

OTHER DISCLOSURE

On 21 April 2010, the Company and Kingston Securities Limited ("Placing Agent") entered into the placing agreement pursuant to which the Company has conditionally agreed to place, through the Placing Agent on a best effects basis, a maximum of 2,565,000,000 placing shares at a price of HK$0.16 per placing share to not fewer than six places who and whose ultimate beneficial owners are third parties independent of and are not connected with the Company and its connected persons.

The maximum gross proceeds from the placing will be approximately HK$410.4 million. The maximum net proceeds from the placing (after deducting the commission payable to the Placing Agent and other expenses incurred in the placing) will amount to approximately HK$402.6 million which is intended to be used for the general working capital of the Group and/or funding for any possible acquisition or investment plan of the Group in the future. The net price of each placing share upon the completion of the Placing will be approximately HK$0.157. Details of which are set out in the Company's announcement dated 21 April 2010.

FUTURE PLANS FOR INVESTMENTS

Reference is made to the announcement of the Company dated 12 March 2010 which disclosed that the Company had entered into non-binding letter of intent with an independent third party for a proposed acquisition of the entire interest in Smart Long Limited (the "Target Company"), a company incorporated in the British Virgin Islands.

Under the letter of intent, the Target Company will directly or indirectly hold the entire equity interest in 佛山市朗訊通信技術有限公司 (the "Project Company"), a company incorporated in the People's Republic of China.

In February 2010, the Project Company entered into an exclusive distribution agreement (the "Exclusive Agreement") with a Sino-foreign joint venture in the PRC (the "Licensor"). The foreign partner to the Licensor is a company listed on NASDAQ which has emerged as a leading manufacturer and marketer of high temperature superconducting (the "HTS") materials. The HTS filters manufactured by the Licensor have been included in the purchase directory of one of the three largest PRC telecom companies. Pursuant to the Exclusive Agreement, the Project Company has an exclusive right in Guangdong and Guangxi, the PRC to the sale and marketing of the HTS filtering solutions. The HTS filter for the 3G and 4G base stations can improve the quality of the voice and data wireless networks and substantially reduce the infrastructure costs for the mobile operators, demand of which is growing rapidly in the PRC.

If no definitive agreement is signed on or before 11 September 2010 or such later date as may be agreed by the parties, the letter of intent shall lapse and be terminated accordingly. As at the date of this report, the Board is still in the progress of reviewing the respective businesses and formal agreements have not been reached.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 March 2010, the interests or short positions of the Directors in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the shares of the Company

Name of director	Nature of interest	Corporate interest	Percentage of shareholding
Mr. Li Hongrong	Interest of controlled corporation *(Note)*	688,960,000	5.36%
Chen Xiao Rong	Beneficial owner	3,000,000 Shares	0.02%
Zhou Zhibin	Beneficial owner	24,860,000 Shares	0.19%

Note: These Shares are held by Tread Up Investments Limited, of which Mr. Li Hongrong has 100% control. Thus, he is deemed to be interested in the 2,000,000,000 Shares held by Tread Up Investments Limited pursuant to the SFO.

Save as disclosed above, the Directors do not have any interests or short positions in the shares of the Company.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share option scheme" below, at no time during the period under review was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

On 22 July 2002, a share option scheme (the "Scheme") was approved by the Company. The purpose of the Scheme is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include directors of the Company or any of its subsidiaries, independent non-executive Directors and employees of the Group, and suppliers of goods or services to the Group.

No share option has been granted by the Company under the Scheme up to the date of this report.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far is known to any Director of the Company, as at 31 March 2010, shareholders (other than Directors of the Company) who had interests or short positions in the securities of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly and indirectly interested in 5% or more of the issued share capital of the Company, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions in the shares of the Company

Name	Nature of interests	Number of ordinary shares held	Approximate percentage of shareholding
ITC Corporation Limited	Interest of controlled corporation *(Note 1)*	761,820,000 Shares	5.92%
ITC Investment Holdings Limited	Interest of controlled corporation *(Note 1)*	705,000,000 Shares	5.64%
Mankar Assets Limited	Interest of controlled corporation *(Note 1)*	705,000,000 Shares	5.64%
Famex Investment Limited	Interest of controlled corporation *(Note 1)*	705,000,000 Shares	5.64%
Hanny Holdings Limited	Beneficial owner	20,000,000 Shares	0.16%
	Interest of controlled corporation *(Note 1)*	685,000,000 Shares	5.48%
Hanny Magnetics (B.V.I.) Limited	Interest of controlled corporation *(Note 1)*	685,000,000 Shares	5.48%
Richeast Holdings Limited	Beneficial owner	685,000,000 Shares	5.48%
Lu Yan Tong	Beneficial owner	853,500,000 Shares	6.60%
Lee Tak Ming	Beneficial owner	908,000,000 Shares	7.06%
Chan Kwok Keung, Charles	Interest of controlled corporation *(Note 2)*	761,820,000 Shares	5.92%
Ng Yuen Lan Macy	Interest of spouse *(Note 3)*	761,820,000 Shares	5.92%

Notes:

1. The 761,820,000 Shares deemed to be interested by ITC Corporation Limited are held as to (i) 685,000,000 Shares by Richeast Holdings Limited, which is 100% controlled by Hanny Magnetics (B.V.I.) Limited, which is 100% controlled by Hanny Holdings Limited (the issue shares of which are listed on the Stock Exchange), which is 42.77% controlled by Famex Investment Limited, which is 100% controlled by Mankar Assets Limited, which is 100% controlled by ITC Investment Holdings Limited, which in turn is 100% controlled by ITC Corporation Limited (the issue shares of which are listed on the Stock Exchange); (ii) 20,000,000 Shares by Hanny Holdings Limited; and (iii) 56,820,000 Shares held by Great Intelligence Holdings Limited, which is 100% controlled by ITC Management Group Limited, which in turn is 100% controlled by ITC Corporation Limited.

2. 761,820,000 Shares are held by ITC Corporation Limited, a company 34.94% owned by Dr. Chan Kwok Keung, Charles. By virtue of the SFO, Dr. Chan Kwok Keung, Charles is deemed to have interest 761,820,000 Shares held by ITC Corporation Limited.

3. Ms. Ng Yuen Lan Macy, is the spouse of Dr. Chan Kwok Keung, Charles. By virtue of the SFO, Ms. Ng Yuen Lan Macy is deemed to have interest of the 761,820,000 Shares held by Dr. Chan Kwok Keung, Charles.

Save as disclosed above and in "Directors' Interests and Short Positions in Shares", the Company had no notice of any interests and short positions to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

The Company applied the principles and complied with all the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review, with the exception of the deviation in respect of the appointment term of non-executive directors.

Under code provision A4.1, non-executive directors should be appointed for specific term. There is no specific term of appointment of the non-executive directors of the Company, however, they are subject to retirement by rotation in accordance with the Articles of Association of the Company. Accordingly the Company considers that sufficient measures have been taken to dealt with the requirement in respect of the appointment terms of non-executive directors as required under the code provision.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or and of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group during the three months and nine months ended 31 March 2010.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months and nine months ended 31 March 2010.

AUDIT COMMITTEE

The Company established an audit committee which comprises the four independent non-executive directors of the Company, with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The results and report were reviewed by the audit committee.

By order of the Board
Neo Telemedia Limited
Li Hongrong
Executive Director

Hong Kong, 13 May 2010

The Board comprises of:
Mr. Li Hongrong *(Executive Director)*
Mr. Tong Hing Chi *(Executive Director)*
Mr. Zhuo Wu *(Executive Director)*
Mr. Zhou Zhibin *(Executive Director)*
Mr. Theo Ede *(Executive Director)*
Mr. Ou Bai *(Executive Director)*
Mr. Lam Kin Kau *(Independent Non-Executive Director)*
Mr. Law Kwok Leung *(Independent Non-Executive Director)*
Mr. Fung Wing Keung *(Independent Non-Executive Director)*
Ms. Chen Xiao Rong *(Independent Non-Executive Director)*
Mr. Hu Yangjun *(Independent Non-Executive Director)*