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)

FIRST QUARTERLY REPORT 2010

For the three months ended
30 September 2010

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK 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 Stock 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors of Neo Telemedia Limited (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 (the "GEM 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:—

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

2. there are no other matters the omission of which would make any statement herein or this report misleading.

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 ended 30 September 2010 together with comparative unaudited figures for the corresponding period of 2009 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the three months ended 30 September	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	*3*	**6,255**	3,923
Cost of sales		**(2,178)**	(3,416)
Gross profit		**4,077**	507
Other revenues	*3*	**1,427**	83
Selling and marketing costs		**(1,153)**	(833)
Administrative and other expenses		**(4,648)**	(3,231)
Loss from operating activities		**(297)**	(3,474)
Finance costs		**(2)**	(8)
Loss before income tax		**(299)**	(3,482)
Income tax expense	*4*	**—**	—
Loss for the period attributable to:			
Owners of the Company		**(299)**	(3,482)
Loss per share			
—basic *(in HK cents)*	*5*	**(0.002)**	(0.03)
—diluted *(in HK cents)*		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Loss for the period	**(299)**	(3,482)
Other comprehensive income (loss):		
Exchange difference arising on translation of foreign operations	**2**	(4)
Total comprehensive loss for the period	**(297)**	(3,486)
Attributable to:		
Owners of the Company	**(297)**	(3,486)

Notes:

1. General information

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 principal activity of the Company is investment holding and the principal activities of its principal subsidiaries are engaged in sales and distribution of telecommunication products, providing wireless services, production and sales of videos and films, the licensing of video and copyrights/film rights and artiste management.

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

The preparation of financial statements in conformity with HKFRSs 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 2010. 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 2010 annual report.

3. Turnover and other revenues

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

	For the three months ended 30 September	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Film exhibition film rights licensing and sub-licensing fee income	**2,224**	2,518
Income from artiste management	**2,003**	1,405
Sales of telecommunication products and providing wireless service	**2,028**	—
Turnover	**6,255**	3,923
Other revenues	**1,427**	83
Total revenues	**7,682**	4,006

4. Income tax expense

No provision for Hong Kong profits tax has been made for the Group as the Group incurred losses for the three months ended 30 September 2010 (2009: Nil). The Group has no material unprovided deferred taxation in respect of the period under review (2009: Nil).

5. Loss per share

The basic loss per share for the three months ended 30 September 2010 is calculated based on the unaudited consolidated loss attributable to owners of the Company for the three months ended 30 September 2010 of approximately HK$299,000 (2009: approximately HK$3,482,000) and the weighted average of 13,835,094,794 shares of the Company (2009: 12,500,000,000 shares) in issue during the periods.

Diluted loss per share for the three months ended 30 September 2010 and 2009 have not been disclosed as no diluting event existed during these periods.

6. **Share capital and reserves**

	Issued capital *HK$'000*	Share premium account *HK$'000*	Capital reserves *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 July 2010 (Audited)	154,282	457,855	17,590	(57)	(178,457)	451,213
Total comprehensive loss for the period (Unaudited)	—	—	—	2	(299)	(297)
At 30 September 2010 (Unaudited)	154,282	457,855	17,590	(55)	(178,756)	450,916
At 1 July 2009 (Audited)	125,000	28,463	17,590	—	(133,993)	37,060
Total comprehensive loss for the period (Unaudited)	—	—	—	(4)	(3,482)	(3,486)
At 30 September 2009 (Unaudited)	125,000	28,463	17,590	(4)	(137,475)	33,574

7. **Dividends**

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the first quarter period ended 30 September 2010, the Group recorded a turnover of approximately HK$6,255,000 (2009: approximately HK$3,923,000), representing a remarkable increase of HK$2,332,000 or 59% as compared to the same quarter last year. The Group recorded a loss of HK$299,000 which is HK$3,183,000 or 91% less for this quarter as compared with the same period last year. The reduction of loss is mainly due to the increase level of turnover, gross profit, and the maintenance of the low operating cost. The gross profit for the year is HK$4,077,000 which is a significant increase of HK$3,570,000 or 7 times more than the same period last year. The gross profit margin is 65% as compared to 13% for the same period last year. It has increase greatly of 52% due to the reduction of cost of sales.

Business Review

In this quarter, the Company maintained its traditional main businesses in the movie and artiste management while also incorporated the sales from new area namely, licensing and sub licensing for the telephone card services. The Company has entered into the acquisition agreements to acquire Ease Ray Limited ("Ease Ray") and Smart Long Limited ("Smart Long"). Such acquisitions had not been completed as at 30 September 2010 and the Company expects the acquisitions will broaden the Group's revenue base in future.

The turnover for the period remain low, however it increased significantly as compared to the same quarter, last financial year. The Company is able to generate additional new revenue from the sales of telecommunications products and providing wireless service. The amount contributed from this area is HK$2,028,000 and this make up 32% of the total sales.

The income from sales of movies recorded HK$2,224,000 and accounted for 36% of the total sales for this period which has decreased by approximately 12% or HK$294,000 as compared to the same period last year. The income from artiste management is HK$2,003,000 which accounted for 32% of the total sales. The figure has increased HK$598,000 or 43% more than the same period last year. The sources of other revenue has also increased to HK$1,427,000 and this represents an increase of HK$1,344,000.

The total operating cost is HK$5,801,000 which represents an increase of HK$1,737,000 or 43% more than the same period last year. The major cost is the administrative and other expenses which make up 80% of the total operating cost and has increased by approximately HK$1,417,000 or 44% as compared to the same period last year. Such increase is mainly due to the increase in professional fees, advertisement, office rental and also the increase in staff cost in conjunction with more business activities to generate more sales.

The other major expenses is selling and marketing costs which is HK$1,153,000 and accounts for 20% of the total operating cost. However this cost has increased slightly of HK$320,000 or 38% as compared to the same period last year.

The Company is expanding the sales of telecommunication products throughout the whole China. The Company has acquired more new products on the transmission area from overseas. The marketing team is constantly conduct marketing discussion and products demonstration with major telecommunication operators in China like China Telecom, China Mobile and China Unicon to sell these products. The Company will built the marketing bases in the Southern China and focus in this territory like Guangzhou.

The wireless services in Fushan is also at the learning curve and the sales is expected to grow slowly and steadily in the beginning stage. The Company is focused on the training of the sales and marketing staff at this stage. The Company is in the process of studying and also locating the establishment and set up of the coverage network for WIFI service with China Telecom.

As for the movie market, the Company is able to produce a few good movies and is marketable for the Hong Kong and China market. This area will become small contribution once the sales from telecommunication is build up and the completion of acquisitions of the Ease Ray and Smart Long.

Business Outlook and Prospect

The business and economic condition in China remain vibrant and positive. The GDP for the 3rd quarter recorded for China remains strong and accelerates to 10.6% for the 3rd quarter. The government has remain prudence in its economy policy recently.

The government is greatly concerned of the possible high inflation persist in the country due to the increase of food price, and also the property bubble. As a result, the People's Bank of China has raised the lending rate by 0.25% to 5.61% and this is the first raise since 2007. The Government also strongly urge the commercial bank and local province authorities to implement measure to control the speculation of the property.

China is also facing increasing political pressure to curb its investment-led economy and promote domestic demand in order to rebalance the world economy and reduce the country's enormous trade surplus.

As a result, we remain positive towards our existing core business and also telecommunication business in China. We expect the promotion of the domestic demand in China will assist our business greatly. The Company is expected to increase more business sales volume in the internet related business in order to capture the upturn condition of the economy.

The management of the Company will also monitor an control the operating cost in order to keep in within the reasonable level and to avoid the possible negative effect of the inflation.

The Company is also continuingly look out for potential business and product to invest especially in the information and telecommunication area in order to enlarge the business volume.

ACQUISITION OF SUBSIDIARIES

Pursuant to the announcement of the Company dated 14 June 2010, the Company has entered into a conditional agreement for the acquisition of the entire issued share capital of Ease Ray at a consideration of HK$1,100,000,000, subject to downward adjustment according to the terms of the agreement, on 3 June 2010 ("Ease Ray Acquisition"). Ease Ray and its subsidiaries are principally engaged in the design and production of traffic signboards and computer graphics; research, development and production of signal systems equipment, design and production of advertisements in the PRC. Ease Ray Acquisition has not yet completed as of the date of this report.

Pursuant to the announcement of the Company dated 4 August 2010, the Company has entered into a conditional agreement for the acquisition of the entire issued share capital of Smart Long at a consideration of HK$230,000,000 ("Smart Long Acquisition"). Smart Long and its subsidiaries are principally engaged in research and development and sales of communication products, telecommunication products, electronic products and computer software and hardware in the PRC. Smart Long Acquisition has not yet completed as of the date of this report.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 September 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	Position	No. of shares held	Approximate shareholding percentage
Mr. Li Hongrong	Interest of controlled corporation *(Note)*	Long	424,380,000 Shares	2.75%
Mr. Zhou Zhibin	Beneficial owner	Long	24,860,000 Shares	0.16%

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 424,380,000 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 adopted 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, as at 30 September 2010, shareholders 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
Mr. Lee Tak Ming	Beneficial owner	908,000,000 Shares	5.89%

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 PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules throughout the period under review except for the following deviations:

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Zhuo Wu was resigned as chief executive officer and executive Director with effect from 16 July 2010. No replacement for the post of chief executive officer has been appointed until 9 September 2010 on which Mr. Zhang Fan has been appointed as chief executive officer and executive Director.

Under code provision A.4.1, non-executive directors should be appointed for specific term. There is no specific term of appointment of the non-executive Directors, however, they are subject to retirement by rotation in accordance with the articles of association of the Company and the Code on Corporate Governance Practices of the GEM Listing Rules. 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.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the period under review, the Company continued to adopt a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the three months ended 30 September 2010.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors, the management shareholders or substantial shareholders of the Company or any 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 ended 30 September 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 ended 30 September 2010.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") which comprises three independent non-executive Directors, with written terms of reference in compliance with Rules 5.28 and 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 Audit Committee has reviewed the Company's unaudited financial statements for the three months ended 30 September 2010 and has provided advice and comments thereon.

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

Hong Kong, 11 November 2010

The Board comprises of:
Mr. Li Hongrong *(Executive Director)*
Mr. Zhou Zhibin *(Executive Director)*
Mr. Theo Ede *(Executive Director)*
Mr. Ou Bai *(Executive Director)*
Mr. Zhang Fan *(Executive Director)*
Mr. Lam Kin Kau, Mark *(Independent non-executive Director)*
Mr. Hu Yangjun *(Independent non-executive Director)*
Professor Song Junde *(Independent non-executive Director)*