中國新電信集團

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

INTERIM REPORT 2016

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*This report, for which the directors (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 Neo Telemedia Limited. 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.*

國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

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The Landmark
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Central
Hong Kong

REVIEW REPORT TO THE BOARD OF DIRECTORS OF NEO TELEMEDIA LIMITED
(Incorporated in Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial statement which comprises of the condensed consolidated statement of financial position of Neo Telemedia Limited (the "**Company**") and its subsidiaries (collectively referred as the "**Group**") as of 30 June 2016 set out on pages 5 to 26 and the related condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to express a conclusion, based on our review, on the interim financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity", issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

BASIS OF QUALIFIED REVIEW CONCLUSION

Opening Balances and Corresponding Figures

The audited consolidated financial statements of the Group for the year ended 31 December 2015, which form the basis for the corresponding figures presented in the current period's condensed consolidated financial statements, included a qualified opinion related to the de-consolidation of a subsidiary, CERNET Wifi Technology (Beijing) Company Limited ("**CERNET Wifi**"). Details of the qualified opinion was set out in the independent auditors' report dated 18 February 2016 which was included in the Company's annual report for the year ended 31 December 2015.

As disclosed in note 21(b) to the condensed consolidated financial statements of the Group for the six months ended 30 June 2016, on 17 February 2016, the Group entered into the agreements to unwind the structure contracts with the immediate holding company of CERNET Wifi.

We were unable to obtain sufficient appropriate audit evidence to enable us to assess the possible effect of de-consolidation of CERNET Wifi for the year ended 31 December 2014 and 2015. Any adjustments found to be necessary to the opening balances as at 1 January 2015 and 2016 may affect the balance of accumulated loss as at 1 January 2015 and 2016, and the results and related disclosures in the notes to the consolidated financial statements of the Group for the six months ended 30 June 2015 and for the period from 1 January 2016 to the date of unwinding the structure contract. The comparative figures showed in the condensed consolidated financial statements may not be comparable with the figures for the current period.

CONCLUSION

Based on our review, except for the effects on the corresponding figures of the matter described in the "Basis for qualified review conclusion" paragraph, nothing has come to our attention that causes us to believe that the interim financial statements as at 30 June 2016 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
Shek Lui
Practising Certificate Number: P05895

Hong Kong, 10 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six and three months ended 30 June 2016

		For the six months ended 30 June		For the three months ended 30 June	
	Notes	**2016 HK$'000 (Unaudited)**	2015 HK$'000 (Unaudited)	**2016 HK$'000 (Unaudited)**	2015 HK$'000 (Unaudited)
Turnover	3	**1,753,076**	17,331	**676,868**	14,919
Cost of sales		**(1,693,766)**	(10,609)	**(638,796)**	(6,185)
Gross profit		**59,310**	6,722	**38,072**	8,734
Other income and gains		**5,957**	706	**72**	167
Gain on disposal of subsidiaries	21	**143,229**	–	**–**	–
Change in fair value of derivative financial assets		**–**	8,219	**–**	8,219
Selling and marketing costs		**(8,130)**	(2,479)	**(5,302)**	(1,480)
Administrative and other expenses		**(44,677)**	(35,890)	**(19,394)**	(24,056)
Finance costs	4	**(4,800)**	(11,744)	**(623)**	(6,078)
Profit/(loss) before tax	5	**150,889**	(34,466)	**12,825**	(14,494)
Income tax credit/(expense)	6	**535**	2,542	**(1,184)**	1,408
Profit/(loss) for the period		**151,424**	(31,924)	**11,641**	(13,086)
Profit/(loss) for the period attributable to:					
Owners of the Company		**145,475**	(20,535)	**3,912**	(6,191)
Non-controlling interests		**5,949**	(11,389)	**7,729**	(6,895)
		HK cents	HK cents (Restated)	**HK cents**	HK cents (Restated)
Earnings/(loss) per share	8				
– basic		**1.53**	(0.31)	**0.04**	(0.09)
– diluted		**1.52**	(0.31)	**0.04**	(0.09)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six and three months ended 30 June 2016

	For the six months ended 30 June		For the three months ended 30 June	
	2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)	**2016 HK$'000 (Unaudited)**	2015 HK$'000 (Unaudited)
Profit/(loss) for the period	**151,424**	(31,924)	**11,641**	(13,086)
Other comprehensive (loss)/ income for the period, net of tax				
Items that may be subsequently reclassified to profit or loss:				
Exchange differences on translating foreign operations:				
Exchange differences arising during the period	**(6,402)**	1,014	**(15,625)**	537
Reclassification adjustment relating to foreign operations disposal during the period	**(2,353)**	–	**–**	–
Other comprehensive (loss)/income for the period, net of tax	**(8,755)**	1,014	**(15,625)**	537
Total comprehensive income/ (loss) for the period	**142,669**	(30,910)	**(3,984)**	(12,549)
Total comprehensive income/ (loss) for the period attributable to:				
Owners of the Company	**137,099**	(19,632)	**(10,911)**	(5,671)
Non-controlling interests	**5,570**	(11,278)	**6,927**	(6,878)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	**319,734**	28,880
Interest in associates		**–**	–
Goodwill	10	**286,880**	121,741
Intangible assets	11	**153,064**	194,866
Total non-current assets		**759,678**	345,487
Current assets			
Inventories		**43,513**	25,286
Trade receivables	12	**88,864**	91,235
Prepayment, deposits and other receivables		**140,070**	155,613
Promissory note	21	**88,000**	–
Loan receivable	13	**40,000**	–
Derivative financial assets		**–**	–
Cash and cash equivalents		**679,749**	1,111,947
Total current assets		**1,080,196**	1,384,081
Current liabilities			
Trade payables	14	**36,352**	46,093
Other payables and accruals	15	**200,568**	120,971
Receipts in advance		**3,763**	8,688
Bank borrowings	16	**35,100**	26,271
Contingent consideration payable	20	**19,002**	–
Convertible notes	17	**–**	157,364
Tax liabilities		**15,464**	14,584
Total current liabilities		**310,249**	373,971

	Notes	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Net current assets		**769,947**	1,010,110
Total assets less current liabilities		**1,529,625**	1,355,597
Non-current liabilities			
Contingent consideration payable	20	**27,082**	–
Deferred tax liabilities	18	**32,632**	36,737
Total non-current liabilities		**59,714**	36,737
Net assets		**1,469,911**	1,318,860
Capital and reserves			
Share capital	19	**952,884**	952,884
Reserves		**474,288**	337,189
Equity attributable to owners of the Company		**1,427,172**	1,290,073
Non-controlling interests		**42,739**	28,787
Total equity		**1,469,911**	1,318,860

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company									
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Convertible notes reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015 (audited)	275,492	1,043,755	20,657	7,131	1,060	7,375	(1,486,912)	(131,442)	28,373	(103,069)
Loss for the period	–	–	–	–	–	–	(20,535)	(20,535)	(11,389)	(31,924)
Other comprehensive income:										
Exchange difference on translation of foreign operations	–	–	–	–	903	–	–	903	111	1,014
Total comprehensive income/(loss) for the period	–	–	–	–	903	–	(20,535)	(19,632)	(11,278)	(30,910)
Issue of shares in relation to acquisition of subsidiaries	30,300	98,475	–	–	–	–	–	128,775	–	128,775
Non-controlling interest arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	6,853	6,853
Capital contribution by non-controlling interest	–	–	–	–	–	–	–	–	1,140	1,140
Share options exercised	2,000	16,177	(5,617)	–	–	–	–	12,560	–	12,560
Bonus issue of shares	307,792	(307,792)	–	–	–	–	–	–	–	–
At 30 June 2015 (unaudited)	615,584	850,615	15,040	7,131	1,963	7,375	(1,507,447)	(9,739)	25,088	15,349
At 1 January 2016 (audited)	952,884	1,832,493	15,040	7,131	(5,711)	7,375	(1,519,139)	1,290,073	28,787	1,318,860
Profit for the period	–	–	–	–	–	–	145,475	145,475	5,949	151,424
Other comprehensive income/(expense):										
Exchange differences on translation foreign operations										
Exchange differences arising during the period	–	–	–	–	(6,023)	–	–	(6,023)	(379)	(6,402)
Reclassification adjustment relating to foreign operations disposal during the period	–	–	–	–	(2,353)	–	–	(2,353)	–	(2,353)
Total comprehensive income for the period	–	–	–	–	(8,376)	–	145,479	137,099	5,570	142,669
Disposal of subsidiaries	–	–	–	–	–	–	–	–	4,155	4,155
Redemption of convertible notes	–	–	–	(713)	–	–	713	–	–	–
Release of reserve upon maturity of convertible notes	–	–	–	(6,418)	–	–	6,418	–	–	–
Non-controlling interest arising from acquisition of a subsidiary	–	–	–	–	–	–	–	–	4,227	4,227
At 30 June 2016 (unaudited)	952,884	1,832,493	15,040	–	(14,087)	7,375	(1,366,533)	1,427,172	42,739	1,469,911

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	2016 **HK$'000** **(Unaudited)**	2015 HK$'000 (Unaudited)
NET CASH FLOWS GENERATED FROM/ (USED IN) OPERATING ACTIVITIES	**16,004**	(35,112)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(350,113)**	(18,609)
NET CASH FLOWS (USED IN)/GENERATED FROM FINANCING ACTIVITIES	**(97,525)**	82,624
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(431,634)**	28,903
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,111,947**	31,668
Effect on foreign exchange rate changes	**(564)**	311
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**679,749**	60,882
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:		
Bank balance and cash	**679,749**	60,882

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the three months and six months ended 30 June 2016

1. GENERAL INFORMATION

Neo Telemedia Limited (the "**Company**") (together with its subsidiaries, collectively referred to as the "**Group**") is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The address of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and Unit 1504, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong respectively.

The condensed consolidated interim financial statements are presented in Hong Kong dollars ("**HK$**"). Other than those subsidiaries established in the People's Republic of China (the "**PRC**") whose functional currency is Renminbi ("**RMB**"), the functional currency of the Company and its subsidiaries are HK$. The reason for selecting HK$ as its presentation currency is that the Company is a public company listed on the GEM, where most of the investors are located in Hong Kong.

The principal activity of the Company is investment holding and the principal activities of its operating subsidiaries are sale of telecommunication products and services and operation of peer-to-peer lending platform business.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

This condensed consolidated interim financial information should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2015.

The accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended 30 June 2016 are the same as those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2015. In the current interim period, the Group has applied, for the first time, certain new or revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants that are mandatorily effective for the current period.

The application of the new or revised HKFRSs has had no material effect on the Group's financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

De-consolidation

Due to i) the non-cooperation of the key management of 賽爾無線網絡科技(北京)有限公司(CERNET Wifi Technology (Beijing) Company Limited*) ("**CERNET Wifi**"), and ii) the non-cooperation of the holder of the CERNET Wifi's non-controlling interests who owned the brand name and network of CERNET, which CERNET Wifi had used for its operations pursuant to an asset leasehold agreement, the Company had been unable to both i) access the complete sets of books and records together with the supporting documents of CERNET Wifi and ii) maintain and operate the business of CERNET Wifi's properly. As such, the Directors of the Company consider that the Company has lost its control over CERNET Wifi. As a result, CERNET Wifi had been de-consolidated from the consolidated financial statements of the Group from 1 January 2014.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represented the net amounts received and receivable for goods sold or services provided by the Group to outside customers, less returns and discounts and sales related taxes.

An analysis of the Group's turnover for the period is as follows:

	For the six months ended 30 June		For the three months ended 30 June	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Sale of telecommunication products and services	**1,709,757**	13,729	**646,119**	11,328
Peer-to-peer (P2P) lending platform	**40,988**	3,438	**28,504**	3,438
Others	**2,331**	164	**2,245**	153
	1,753,076	17,331	**676,868**	14,919

Segment information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised and managed.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

– Sale of telecommunication products and services
– P2P lending platform

* *For identification purposes only*

3. TURNOVER AND SEGMENT INFORMATION (Continued)

(a) Segment revenues and results

The following is an analysis of the Group's turnover and results by reportable and operating segment:

	Sale of telecommunication products and services For the six months ended 30 June		P2P lending platform For the six months ended 30 June		Others For the six months ended 30 June		Total For the six months ended 30 June	
	2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)	**2016 HK$'000 (Unaudited)**	2015 HK$'000 (Unaudited)	**2016 HK$'000 (Unaudited)**	2015 HK$'000 (Unaudited)	**2016 HK$'000 (Unaudited)**	2015 HK$'000 (Unaudited)
Turnover	**1,709,757**	13,729	**40,988**	3,438	**2,331**	164	**1,753,076**	17,331
Segment results	**(3,034)**	(14,135)	**29,138**	1,200	**(3,952)**	(9,405)	**22,152**	(22,340)
Interest income							**5,837**	306
Gain on disposal of subsidiaries							**143,229**	–
Change in fair value of derivative financial asset							**–**	8,219
Unallocated corporate expenses							**(15,529)**	(8,907)
Finance costs							**(4,800)**	(11,744)
Profit/(loss) before tax							**150,889**	(34,466)
Income tax credit							**535**	2,542
Profit/(loss) for the period							**151,424**	(31,924)

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	Sale of telecommunication products and services		P2P lending platform		Others		Total	
	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)	**30 June 2016 HK$'000 (Unaudited)**	31 December 2015 HK$'000 (Audited)	**30 June 2016 HK$'000 (Unaudited)**	31 December 2015 HK$'000 (Audited)	**30 June 2016 HK$'000 (Unaudited)**	31 December 2015 HK$'000 (Audited)
Segment assets	**1,211,899**	562,029	**105,031**	145,617	**47,169**	5,705	**1,364,099**	713,351
Unallocated corporate assets							**475,775**	1,016,217
Total assets							**1,839,874**	1,729,568
Segment liabilities	**190,239**	165,562	**16,769**	16,963	**7,130**	2,405	**214,138**	184,930
Unallocated corporate liabilities							**155,825**	225,778
Total liabilities							**369,963**	410,708

Note: Others represent other reporting segments that are not reportable segments under HKFRS 8, which include logistics related business, transmedia advertising services and cross-border e-commerce business.

4. FINANCE COSTS

	For the six months ended 30 June		For the three months ended 30 June	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Effective interest on convertible notes	**2,800**	9,543	**92**	4,861
Interest on short-term loans	**2,000**	2,201	**531**	1,217
	4,800	11,744	**623**	6,078

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	For the six months ended 30 June		For the three months ended 30 June	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Interest income	**(5,837)**	(306)	**(2,298)**	(165)
Depreciation of items of property, plant and equipment	**1,218**	2,883	**486**	1,472
Amortisation of intangible assets	**13,438**	11,930	**4,416**	7,227
Impairment loss recognised in respect of intangible assets	**–**	6,572	**–**	6,572

6. INCOME TAX (CREDIT)/EXPENSE

	For the six months ended 30 June		For the three months ended 30 June	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax:				
– Hong Kong	**–**	–	**–**	–
– PRC	**2,229**	357	**2,102**	357
Deferred tax (Note 18)	**(2,764)**	(2,899)	**(918)**	(1,765)
Total tax (credit)/expense for the period	**(535)**	(2,542)	**1,184**	(1,408)

(a) Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits.

(b) Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction where the Group operates.

7. DIVIDEND

The Directors resolved not to declare any dividend for the six months ended 30 June 2016 (2015: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to owners of the Company is based on the following data:

	For the six months ended 30 June		For the three months ended 30 June	
	2016 (unaudited) HK$'000	2015 (unaudited) HK$'000	**2016 (unaudited) HK$'000**	2015 (unaudited) HK$'000
Profit/(loss) attributable to owners of the company	**145,475**	(20,535)	**3,912**	(6,191)

	For the six months ended 30 June		For the three months ended 30 June	
	2016 (unaudited)	2015 (unaudited) (restated)	**2016 (unaudited)**	2015 (unaudited) (restated)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per ordinary share at the end of the period	**9,528,844,345**	6,634,342,281	**9,528,844,345**	6,983,584,683
Effect of dilutive potential ordinary share: Share options	**41,916,749**	–	**37,686,690**	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per ordinary share at the end of the period	**9,570,761,094**	6,634,342,281	**9,566,531,035**	6,983,584,683

The computation of diluted earnings per share for the six month and three month periods ended 30 June 2016 does not assume the exercise of certain share options since the exercise prices are higher than the average share price. The computation of diluted loss per share for the six month and three month periods ended 30 June 2015 did not assume the exercise of share options since the exercise prices are higher than the average share price. In addition, the computation of diluted earnings/(loss) per share does not assume the conversion of the Company's outstanding convertible notes since it would result in an anti-dilutive effect on earnings/(loss) per share.

8. EARNINGS/(LOSS) PER SHARE (Continued)

The weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share has been adjusted for bonus issue and open offer that took place on 19 June 2015 and 30 December 2015 respectively. Accordingly, the basic and diluted loss per share for the six month and three month periods ended 30 June 2015 have been restated.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group spent approximately HK$283,221,000 (2015: HK$143,000) on acquisition of property, plant and equipment, excluding property, plant and equipment acquired through acquisition of subsidiaries.

10. GOODWILL

	HK$'000
Cost	
At 1 January 2016 (Audited)	1,226,057
Arising on acquisition of a subsidiary (Note 20)	171,542
Eliminated on disposal of subsidiaries (Note 21(a))	(211,838)
At 30 June 2016 (Unaudited)	1,185,761
Accumulated impairment	
At 1 January 2016 (Audited)	1,104,316
Eliminated on disposal of subsidiaries (Note 21(a))	(205,435)
At 30 June 2016 (Unaudited)	898,881
Carrying values	
At 30 June 2016 (Unaudited)	**286,880**
At 31 December 2015 (Audited)	121,741

11. INTANGIBLE ASSETS

During the six months ended 30 June 2016, the Group disposed of intangible assets in respect of the exclusive right on purchase and sales of satellite communication equipment amounting to approximately HK$28,635,000 (Note 21(a)) through disposal of subsidiaries.

12. TRADE RECEIVABLES

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Trade receivables	**88,905**	91,276
Less: accumulated allowance for doubtful debts	**(41)**	(41)
	88,864	91,235

The Group allows an average credit period of 90 days (31 December 2015: 90 days) to its trade customers.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Within 30 days	**35,383**	86,449
31 to 60 days	**9,958**	4,269
61 to 90 days	**8,747**	243
Over 90 days	**34,776**	274
	88,864	91,235

13. LOAN RECEIVABLE

During the period ended 30 June 2016, the Group granted a short term loan of HK$40,000,000 (31 December 2015: nil) to an independent third party (the "**Borrower**"). The amount carries interest at 12% per annum with a repayment term of 6 months from the date of drawdown. The loan is secured by a personal guarantee provided by a shareholder of the Borrower together with the 100% shares in a company owned by a shareholder of the Borrower.

14. TRADE PAYABLES

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Trade payables	**36,352**	46,093

14. TRADE PAYABLES (Continued)

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Within 30 days	**30,691**	25,561
31 to 60 days	**5,492**	–
61 to 90 days	**86**	487
Over 91 days	**83**	20,045
	36,352	46,093

15. OTHER PAYABLES AND ACCRUALS

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Other payables	**189,441**	79,785
Accruals	**11,127**	41,186
	200,568	120,971

Included in other payables as at 30 June 2016 was an amount of HK$144,000,000 reclassified from convertible notes on upon maturity on 5 April 2016. As there are ongoing legal proceedings between the Company and the convertible note holders, up to the date of this report, the amount has not been settled. Please refer to "Legal proceedings" in "Management discussion and analysis" for further information.

Included in other payables as at 31 December 2015 was a short term loan of approximately HK$27,320,000 obtained from an independent third party.

The loan carried a fixed interest rate at 1.2% per month and was unsecured, denominated in HK$ and repaid during the reporting period.

16. BANK BORROWINGS

	30 June 2016 HK$'000	31 December 2015 HK$'000
Bank borrowings repayable:		
Within one year or on demand	**35,100**	26,271

At 30 June 2016, the bank borrowings of approximately HK$35,100,000 (31 December 2015: HK$26,271,000) are denominated in RMB and carry fixed interest at 5.52% per annum (31 December 2015: 5.52%) and are repayable within one year from the end of the reporting period.

The Group's banking facilities amounting to approximately HK$35,100,000 (31 December 2015: HK$35,100,000), which had been utilised as at the end of the reporting period (31 December 2015: HK$26,271,000), are secured by the pledge of certain properties of a company substantially owned by Mr. Lie, a substantial shareholder of the Company.

17. CONVERTIBLE NOTES

During the six months ended 30 June 2016, convertible note with principal amount of HK$16,000,000 was redeemed. The remaining HK$144,000,000 has been reclassified to other payables upon maturity on 5 April 2016. Accordingly, the convertible notes reserve has been released to the accumulated losses.

18. DEFERRED TAX

The movements in deferred tax liabilities during the current period are as follows:

	Intangible assets HK$'000
At 1 January 2016 (Audited)	36,737
Disposal of subsidiaries	(1,341)
Deferred tax credited to the consolidated statement of profit or loss and other comprehensive income during the period (Note 6)	(2,764)
At 30 June 2016 (Unaudited)	**32,632**

19. SHARE CAPITAL

	Par value per share HK$	Number of shares	Amount HK$'000
Authorised:			
At 31 December 2015 and 30 June 2016	0.1	20,000,000,000	2,000,000
Issued and fully paid:			
At 1 January 2016 (Audited) and 30 June 2016 (Unaudited)	0.1	9,528,844,345	952,884

20. BUSINESS COMBINATION

Acquisition of Guangzhou Zituo

On 4 March 2016, 廣東蔚海移動發展有限公司 (Guangdong Bluesea Mobile Development Company Limited*) ("**Bluesea Mobile**"), an indirect wholly-owned subsidiary of the Company through structured contracts, entered into an agreement (the "**Agreement**") with 王坤 (Wang Kun*) (the "**Vendor**") pursuant to which the Vendor conditionally agreed to sell Bluesea Mobile 60% of equity interest in 廣州市資拓科技有限公司 (Guangzhou Zituo Technology Company Limited*) ("**Guangzhou Zituo**"). Guangzhou Zituo is principally engaged in providing Internet Data Center ("**IDC**") services in the PRC. The acquisition was completed on 24 March 2016.

The provisional fair value of the net identifiable assets acquired and the provisional goodwill arising are as follows:

	HK$'000
Property, plant and equipment	5,678
Accounts receivable	26,733
Prepayments and other receivables	1,891
Cash and cash equivalents	7,437
Accounts payable	(27,770)
Accruals and other payables	(3,323)
Tax liabilities	(77)
Non-controlling interest	(4,227)
Total identifiable net assets acquired	6,342
Provisional goodwill on acquisition	171,542
	177,884

20. BUSINESS COMBINATION (Continued)

Acquisition of Guangzhou Zituo (Continued)

The non-controlling interests recognised at the acquisition date were measured by reference to the proportionate share of provisional fair values of Guangzhou Zituo's net assets at the acquisition date and amounted to HK$4,227,000. Provisional goodwill arose in the above acquisition because the cost of acquisition included a control premium, in addition, the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Guangzhou Zituo. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the provisional goodwill arising on this acquisition is expected to be deductible for tax purpose.

The provisional goodwill arising from the above acquisitions is determined on a provisional basis as the Group is in the process of completing the identification of separable intangible assets and the independent valuation to assess the provisional fair value identifiable assets acquired. It may be adjusted upon the completion of initial accounting year which shall not exceed one year from the respective acquisition date.

The consideration of the acquisition is satisfied by cash of no more than HK$180,000,000.

	Fair value HK$'000
Consideration satisfied by:	
Cash	131,800
Contingent consideration payable (Note)	46,084
	177,884
Net Cash outflow arising on the acquisition:	
Consideration paid in cash	(131,800)
Less: Cash and cash equivalent balances acquired	7,437
	(124,343)

Note: According to the Agreement, the Vendor has guaranteed to Bluesea Mobile that the audited net profit after tax for the years ended 31 December 2016 and 2017 will not be less than HK$25,000,000 ("**2016 Guaranteed Profit**") and HK$40,000,000 ("**2017 Guaranteed Profit**") respectively. Cash of HK$20,000,000 and HK$30,000,000 shall be payable to the Vendor provided that the 2016 Guaranteed Profit and 2017 Guaranteed Profit have been met, respectively. The fair value of the amount payable of HK$50,000,000 at the date of acquisition was estimated by applying the discounted cash flow approach at a discount rate of 5.25%.

20. BUSINESS COMBINATION (Continued)

Acquisition of Guangzhou Zituo (Continued)

Acquisition related costs were insignificant and have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in the "administrative and other expenses" line item in the condensed consolidated statement of profit or loss.

Since the acquisition, Guangzhou Zituo has contributed approximately HK$36,283,000 and HK$3,617,000 to the Group's revenue and profit, respectively, for the period ended 30 June 2016.

Had the acquisition of Guangzhou Zituo been effected at the beginning of the interim period, the total amount of revenue of the Group from continuing operations for the six months ended 30 June 2016 would have been HK$1,784,932,000, and the amount of the profit for the interim period from continuing operations would have been HK$156,032,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed at the beginning of the interim period, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Guangzhou Zituo been acquired at the beginning of the interim period, the directors calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

21. DISPOSAL OF SUBSIDIARIES

(a) Disposal of HCH Investments Limited

On 19 February 2016, the Company entered into a sale and purchase agreement with OAF (BJ) Limited (as the "**Purchaser**") and Mr. Chong Hock (Charles) Lau (as the "**Guarantor**") pursuant to which the Company conditionally agreed to sell the entire equity interest of HCH Investments Limited at a consideration of HK$156,000,000 to the Purchaser. The principal activities of HCH Investments Limited and its subsidiaries (collectively referred to as the "**Disposal Group**") are engaged in the development of Internet technology and satellite communication technology as well as the trading of satellite communication system devices.

The ultimate beneficial owner of the Purchaser who is also the Guarantor is a director of a subsidiary of HCH Investments Limited, and therefore was a connected person of the Company at subsidiary level. Accordingly, the disposal constituted a connected transaction of the Company under GEM Listing Rules.

21. DISPOSAL OF SUBSIDIARIES (Continued)

(a) Disposal of HCH Investments Limited (Continued)

The disposal was completed on 14 March 2016. Net assets of the Disposal Group at the date of disposal were as follows:

	HK$'000
Property, plant and equipment	3,872
Intangible assets	28,635
Goodwill	6,403
Inventory	231
Accounts receivable	410
Prepayments and other receivables	8,539
Cash and cash equivalents	10,549
Accounts payable	(20,461)
Accruals and other payables	(28,119)
Deferred taxation	(1,341)
	8,718
Less: non-controlling interest	4,155
Net assets disposed of	12,873
Gain on disposal of subsidiaries:	
Cash consideration received	68,000
Promissory note (note)	88,000
Net assets disposed of	(12,873)
Release of cumulative exchange difference on translation of foreign operations	(58)
	143,069
Net cash inflow arising on disposal:	
Cash consideration	68,000
Cash and cash equivalent disposed of	(10,549)
	57,451

Note: The promissory note is non-interest bearing, non-transferable and with a 6-month maturity from the date of completion.

21. DISPOSAL OF SUBSIDIARIES (Continued)

(b) Unwinding of structured contract with 天一金網科技有限公司 ("A1 Net")

On 17 February 2016, the Group entered into agreements (the "**Unwinding Agreements**") with A1 Net, the immediate holding company of CERNET Wifi and a subsidiary of the Company by way of structured contracts (the "**Structured Contracts**"), the shareholders of A1 Net and two independent third parties (the "**Purchasers**") to unwind the Structured Contracts. Pursuant to the Unwinding Agreements, among others, 1) the Structured Contracts under which the Group had obtained control over CERNET Wifi would be unwound; and 2) the shareholders of A1 Net disposed of their entire interests in A1 Net to the Purchasers.

In addition, upon the unwinding of the Structured Contracts, while the Group will not incur further costs in relation to the legal proceedings, A1 Net has undertaken to repay the Group its share of any claimed amount received by CERNET Wifi if the outcome of the legal proceedings is in favour of CERNET Wifi.

Upon the unwinding of the Structured Contracts on 17 February 2016, the entity interest in A1 Net was disposed of, and the net assets of A1 Net at the date of unwinding were as follows:

	HK$'000
Cash and cash equivalents	166
Prepayments	324
Other receivables	1,761
Net assets disposed of	2,251
Gain on disposal of subsidiaries:	
Net assets disposed of	(2,251)
Release of cumulative exchange difference on translation of foreign operations	2,411
	160
Net cash outflow arising on disposal:	
Cash and cash equivalent disposed of	(166)

22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial asset and liability	Fair value as at 30 June 2016 (HK$'000)	Fair value as at 31 December 2015 (HK$'000)	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial asset	–	–	Level 2	Risk-free rate, applicable stock price, volatility, dividend yield, credit spread and liquidity risk premium
Contingent consideration payable	(46,084)	–	Level 2	Derived using discounted cash flow approach at a rate of 5.25%

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated interim financial statements approximate their fair values.

23. CAPITAL COMMITMENTS

As at 30 June 2016, the Group had capital commitment of approximately HK$11,197,000 (31 December 2015: HK$nil) and HK$9,360,000 (31 December 2015: HK$9,549,000) for acquisition of property, plant and equipment and capital contribution to a joint venture, respectively.

24. CONNECTED AND RELATED PARTY TRANSACTIONS

Connected Transactions

Acquisition of Property, Plant and Equipment

During the period ended 30 June 2016, 廣東蔚海移動發展有限公司 (the "**Purchaser**"), a wholly-owned subsidiary of the Company, acquired ten office unites located at Smart City, No.1 Zhi Hui Road, Chan Cheng District, Foshan, the PRC (the "**Properties**") at the aggregate consideration of RMB62,020,620 from 佛山源海發展有限公司 (the "**Properties Vendor**").

The Properties Vendor is substantially owned by Mr. Lie, a substantial shareholder of the Company. The Properties Vendor, being an associate of Mr. Lie, is therefore a connected person of the Company under the GEM Listing Rules. Accordingly, the transactions contemplated under the property acquisition agreements constituted a connected transaction of the Company under the GEM Listing Rules.

Disposal of Subsidiaries

Details of the disposal of subsidiaries which constituted a connected transaction are set out in note 21(a) to the condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2016, the Group recorded a turnover of approximately HK$1,753,076,000 (2015: HK$17,331,000), representing a surge of approximately HK$1,735,745,000 or 100 times as compared to the same period in last year. The increase in turnover was mainly driven by the businesses acquired in 2015. The Group also recorded a profit attributable to owners of the Company of approximately HK$145,475,000 (2015: loss of HK$20,535,000) for the six months ended 30 June 2016, mainly due to the gain of disposal of the Hughes China Group completed during the period under review, as well as the profit contribution from Bluesea Mobile Group, Million Ace Group, Avatar Wealth and Bees Financial (as defined below).

Sale of telecommunication products and services

Bluesea Mobile Group

During the period under review, 廣東蔚海移動發展有限公司 (Guangdong Bluesea Mobile Development Company Limited*) ("**Bluesea Mobile**") and its subsidiaries (collectively referred to as "**Bluesea Mobile Group**") completed the acquisition of 60% equity interest in 廣州市資拓科技有限公司 (Guangzhou Zituo Technology Company Limited*) ("**Guangzhou Zituo**"). Guangzhou Zituo is principally engaged in providing Internet Data Center ("**IDC**") services in the PRC and is currently managing over 2,000 IDC server cabinets in various cities in the PRC, including Beijing, Shanghai, Guangzhou and Shenzhen. Meanwhile, Bluesea Mobile Group has also kicked off its IDC project in Panyu where it started the construction of its IDC. The turnover contributed to the Group for the period represented trading of telecommunication products and provision of IDC, WIFI and value-added Internet services.

Million Ace Group

Million Ace Limited and its subsidiaries (collectively referred to as "**Million Ace Group**") is mainly engaged in trading of mobile phones, computers and the relevant devices. Although there is a worldwide slowdown in smartphone sales in first half in 2016, Million Ace Group still managed to record a turnover of approximately HK$1.60 billion sales in the period under review.

* *for identification purpose only*

Hughes China Group

On 19 February 2016, the Company entered into a sale agreement with an independent third party in relation to the disposal of the entire equity interest of HCH Investments Limited at a consideration of HK$156,000,000 (the "**Disposal**"). The Disposal was completed on 14 March 2016 and a gain of approximately HK$143 million was recognised in the condensed consolidated statement of profit or loss for the period ended 30 June 2016.

CERNET Wifi Group

Although the common seal, contract chop and business registration (and its duplicate) of 賽爾無線網絡科技(北京)有限公司 (CERNET Wifi Technology (Beijing) Company Limited*) ("**CERNET Wifi**") had been returned to CERNET Wifi and the Group held the controlling interest of CERNET Wifi, the Group was not able to resume its personal broadband business (the "**Broadband Business**") during the period under review due to: 1) the broadband business projects, the books and records of CERNET Wifi, and etc., which were essential for operating the Broadband Business, had been taken away by CERNET Investment Limited ("**CERNET Investment**"), the holder of the non-controlling interest of CERNET Wifi, and its staff members, including the former general manager and the former employees of CERNET Wifi; and 2) the possibility of resuming the Broadband Business by CERNET Wifi substantially relied on the outcome of the asset leasehold arbitration, details of which are disclosed in the announcement of the Company dated 19 December 2014 (the "**Asset Leasehold Arbitration**"). Should the outcome of the Asset Leasehold Arbitration be unfavourable to CERNET Wifi, CERNET Wifi would not be able to recover the broadband business projects, the books and records of CERNET Wifi and the assets under the Asset Leasehold Agreement which were necessary for operating the Broadband Business.

* *for identification purpose only*

Meanwhile, the legal disputes between, among others, CERNET Wifi and CERNET Investment involved CERNET Wifi's claims and CERNET Investment's counter claim. Based on the latest legal opinion, the outcome of the Asset Leasehold Arbitration remained uncertain. China International Economic and Trade Arbitration Commission（中國國際經濟貿易仲裁委員會）(“**CIETAC**”) had kept delaying its decision on the Asset Leasehold Arbitration and we were informed that more time was required by CIETAC to gather information and to review such information. As such, the Group had incurred additional cost in order to support CERNET Wifi for the Asset Leasehold Arbitration and it was expected that further related costs would be incurred by the Group. Up to the year ended 31 December 2015, the Group had incurred approximately HK$2,529,000 for legal claims relating to CERNET Wifi and the Asset Leasehold Arbitration. However, it was possible that the outcome of the Asset Leasehold Arbitration might not be favourable to CERNET Wifi.

With a view to saving time and costs involved in the legal proceedings, on 17 February 2016, the Group entered into agreements (the “**Unwinding Agreements**”) with 天一金網科技有限公司 (“**A1 Net**”), the immediate holding company of CERNET Wifi and a subsidiary of the Company by way of structured contracts (the “**Structured Contracts**”), the shareholders of A1 Net and two independent third parties (the “**Purchasers**”) to unwind the Structured Contracts. Pursuant to the Unwinding Agreements, among others, 1) the Structured Contracts under which the Group had obtained control over CERNET Wifi would be unwound; and 2) the shareholders of A1 Net disposed of their entire interests in A1 Net to the Purchasers. The financial impact of the unwinding the Structured Contracts on the Company's condensed consolidated financial statements was insignificant.

In addition, upon the unwinding of the Structured Contracts, while the Group will not incur further costs in relation to the legal proceedings, A1 Net has undertaken to repay the Group its share of any claimed amount received by CERNET Wifi if the outcome of the legal proceedings is in favour of CERNET Wifi.

Peer-to-peer lending platform business

During the period under review, the Group continued to expand its customer base of its P2P platforms in 廣東阿凡達財富投資管理有限公司 (Guangdong Avatar Wealth Investment Management Company Limited*) (“**Avatar Wealth**”) and 深圳市蜜蜂金服互聯網金融服務有限公司 (Shenzhen Bees Financial Internet Financial Services Co. Ltd.*) (“**Bees Financial**”). The revenue contributed to the Group represented commission income through the operations of P2P lending platforms.

* *for identification purpose only*

PROSPECTS

Sale of telecommunication products and services

Bluesea Mobile Group

Upon the completion of the acquisition of Guangzhou Zituo, Bluesea Mobile Group has strengthened its presence in the IDC business in the region. In addition, it is expected that the IDC in Panyu to complete its construction and commence its trial run in the second half of the year. Meanwhile, Bluesea Mobile Group has entered into a strategic cooperation framework agreement with China Nuclear Fifth Construction Co., Ltd ("**China Nuclear Industry**") in respect of the joint development of a sizeable supervision cloud platform of nuclear power construction. Through the strengths of Bluesea Mobile Group in IDC, cloud computing and big data, coupled with the technology and resources of China Nuclear Industry in nuclear construction, the management targets to cover the related upstream and downstream enterprises of nuclear construction in the PRC.

Million Ace Group

The management expects the sales to pick up in the second half of the year as various brands are expected to roll out new models of mobile phones.

Peer-to-peer lending platform business

The Group is ready to expand further in the P2P business and plans to establish a third-party payment company, develop personal credit information platform, set up integrated service shop in the Pearl River Delta and expand its customer base.

With the launch of the P2P lending platform business in Avatar Wealth and Bees Financial, the Group aims to establish an integrated data transfer, mobile marketing and sales, and financial transactions system and become one of the leading P2P Internet financial group in China.

Other Projects

CNCC Logistics

中集物流裝備有限公司 (CNCC Logistics Equipment Co., Ltd.*) ("**CNCC Logistics**") is principally engaged in design, manufacture and sale of logistics equipment, and the provision of relevant technical advisory services. Through CNCC Logistics, the Group will set up 50 skid mounted liquefied natural gas (LNG) filling stations and related businesses, as well as manufacturing plants in Jinan, Shandong Province and in Northwest China.

* *for identification purpose only*

Overall

The Group will continue to explore potential investment opportunities in the telecommunication and Internet finance sectors. With the favorable policies and support from the PRC government towards these fast growing sectors, the management is optimistic that the Group will regain its strength and be able to reward shareholders with better results in the foreseeable future.

Share Capital

As at 30 June 2016, the authorised share capital of the Company was HK$2,000,000,000 divided into 20,000,000,000 shares of HK$0.10 each and the issued share capital of the Company was approximately HK$952,884,000 divided into 9,528,844,345 shares of HK$0.10 each.

Financial Position

During the period under review, the Group generally financed its operations with internally generated resources and bank borrowings. As at 30 June 2016, the Group had total debt, represented by interest-bearing borrowings, of HK$35,100,000 (31 December 2015: HK$53,591,000) which is due within one year. Total equity of the Group as at 30 June 2016 amounted to HK$1,469,911,000 (31 December 2015: HK$1,318,860,000). The Group's gearing ratio (expressed as total debt to total equity) decreased from approximately 4.1% as at 31 December 2015 to approximately 2.4% as at 30 June 2016.

As at 30 June 2016, the Group had current assets of approximately HK$1,080,196,000 (31 December 2015: HK$1,384,081,000), including cash and equivalents of approximately HK$679,749,000 (31 December 2015: HK$1,111,947,000), and trade receivables, prepayments, deposits and other receivables, promissory note and loan receivable of approximately HK$356,934,000 (31 December 2015: 246,848,000); and current liability of approximately HK$310,249,000 (31 December 2015: HK$373,971,000). The Group's current ratio had decreased from approximately 3.7 times as at 31 December 2015 to approximately 3.5 times as at 30 June 2016.

Charges on the Group's Assets

There were no material charges on the Group's assets as at 30 June 2016.

Foreign Exchange Exposure and Treasury Policies

Most of the Group's cash balances and income are either denominated in Renminbi and Hong Kong dollars. In view of the stability of the exchange rates of Renminbi and Hong Kong dollars, no hedging or other alternatives have been implemented. As at 30 June 2016, the Group did not have any outstanding hedging instrument.

LEGAL PROCEEDINGS

The Company

Writ of summons

Reference is made to the announcement of the Company dated 14 June 2015, a writ of summons (the "**Writ**") was issued by Arch Capital Limited and Hillgo Asia Limited (the "**CN Holder(s)**") against the Company under Court of First Instance of the High Court of Hong Kong Action No.1281 of 2015 ("**Action**"). In the statement of claim under the Writ, the said two companies purportedly claim as the holders for value of two convertible notes in an aggregate principal amount of HK$144,000,000 issued by the Company (the "**Convertible Note(s)**"), and claim for the principal amount of HK$144,000,000 under the said Convertible Notes together with interest and costs. The Convertible Notes were issued by the Company in relation to the acquisition of HCH Investments Limited in April 2013 as part of the consideration payable to Oberlin Asia Inc. (the "**Vendor**"). The Vendor nominated the said two companies to hold the Convertible Notes; and it was expressly provided in the Convertible Notes that they were non-transferable. There are on-going disputes between the Company and the Vendor regarding the said acquisition. Further, subsequent to the said acquisition and without the prior knowledge or consent of the Company, the ultimate beneficial ownership of the said two companies was transferred to Next-Generation Satellite Communications Limited ("**Next-Gen**"), a company listed on the Singapore Stock Exchange. It is the Company's position that the said transfer was in breach of aforesaid provision of non-transferability, and therefore the said two companies and Next-Gen are not entitled to claim on the Convertible Notes.

The Directors have therefore given instructions to the Company's legal adviser to contest and defend the Action and to raise a counterclaim against the said two companies. A Defence and Counterclaim has accordingly been filed on behalf of the Company on 26 August 2015, disputing the claim of the said two companies and counterclaiming them for damages (the "**Counterclaim**").

On 6 January 2016, an order for discontinuance of the Counterclaim and a Tomlin order (the "**Tomlin Order**") were filed with the High Court that all further proceedings in relation to the Action be stayed except for carrying out the terms that include the following, among other things, into effect:

– The Company shall, within 3 business days after closing of the open offer completed on 30 December 2015, pay to the said two companies the sum of HK$10,080,000, representing the outstanding interest on the Convertible Notes for the period from 5 October 2014 to 4 October 2015.

– The Company shall comply with all terms of the Convertible Notes.

– The obligation of the Company to pay interest of the Convertible Notes at the rate of 7% per annum from 5 October 2015 until full payment is expressly waived by the said two companies.

On 12 April 2016, the Company entered into an agreement (the "**Settlement Agreement**") with the CN Holders and A R Evans Capital Limited (the "**Subscriber**") pursuant to which the Company will allot and issue 375,875,000 ordinary shares to the Subscriber at the price of HK$0.40 per share (the "**Subscription Share(s)**"). Upon the issue of the Subscription Shares, the obligation of the Company under the Tomlin Order and the Convertible Notes shall be fully and completely discharged and all claims of the CN Holders under the action in respect of the Tomlin Order shall stand dismissed. The CN Holders shall have no legal right to take any further action on the Tomlin Order and the Convertible Notes. The Subscriber shall sell or procure the sale of the Subscription Shares at a price not less than HK$0.38 per Subscription Share and make payments of HK$145,680,000 to the CN Holders. The Settlement Agreement has lapsed as the conditions precedent have not been fulfilled by 13 May 2016, i.e., the long stop date agreed by the Company and the Subscriber.

On 13 June 2016, a hearing of an application on the part of the CN Holders for the Tomlin Order that the Company failed to redeem the Convertible Notes on 5 April 2016 was held at the High Court and the court granted an order (the "**Order**") in favour of the CN Holders for the amount of HK$144,000,000 together with the interest thereon at the judgement rate from 13 June 2016 until full payment.

On 27 June 2016, the Company filed the Notice of Appeal to Judge in Chambers to appeal against the Order (the "**Appeal**").

On 29 June 2016, the Company received a statutory demand from the CN holders requiring the Company to pay the amount of amount of HK$144,000,000 together with the interest thereon at the judgement rate from 13 June 2016 until full payment pursuant to the Order.

On 7 July 2016, the Company filed an application for stay of execution of the Order (the "**Application**"), and the hearing on the Application was fixed for 29 July 2016 whereas the hearing on the Appeal was fixed for 26 September 2016 at the High Court.

On 29 July 2016, the High Court dismissed the Application.

Having considered the amount involved in the Order and the existing financial position of the Group, the Directors do not expect that the Order would result in any material adverse impact on the operation and financial position of the Group.

Employee Information

As at 30 June 2016, the Group had approximately 250 employees. Salaries and benefits of the Group's employees were kept at a market level and employees were rewarded on a performance-related basis. Remuneration is reviewed annually. Staff benefits include contribution to mandatory contribution fund, discretionary bonus and share options. During the six months ended 30 June 2016, no share options were granted to employees of the Group.

Material Acquisition and Disposals

Hughes China Group

On 14 March 2016, the Group completed the disposal of the entire equity interest in HCH Investments Limited at a consideration of HK$156,000,000. Hughes China Group is mainly engaged in trading of satellite communication products and related services. For details of the disposal, please refer to the Company's announcement dated 25 February 2016.

Guangzhou Zituo

On 24 March 2016, the Group Completed the acquisition of 60% equity interest in Guangzhou Zituo. Guangzhou Zituo is principally engaged in provision of IDC services. For details of the acquisition, please refer to the Company's announcement dated 7 March 2016.

Significant Investments

Other than the acquisition of Guangzhou Zituo, the Group did not make any significant investments during the six months ended 30 June 2016.

Segmental Information

Details of segmental information of the Group as at 30 June 2016 are set out in note 3 to the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2016.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2016, 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 Stock 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 securities of the Company

Name of Director	Capacity	Number of shares/underlying shares held	Approximate percentage of shareholding
Mr. ZHANG Xinyu	Beneficial owner	45,600,000 (Note 1)	0.48%
Mr. XU Gang	Beneficial owner	1,422,000	0.01%
	Interest of spouse (Note 2)	72,000	Negligible
Mr. HUANG Zhixiong	Interest of spouse (Note 3)	17,034,000	0.18%

Notes:

1. These 45,600,000 underlying shares are derived from the share options granted by the Company.

2. Mr. Xu is interested in 72,000 shares of the Company held by his spouse, Ms. Yang Jintong.

3. Mr. Huang is interested in 17,034,000 shares of the Company held by his spouse, Ms. Gao Suzhen.

Save as disclosed above, the Directors did not have any interests or short positions in the securities of the Company as at 30 June 2016.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share option schemes" 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 SCHEMES

On 19 December 2012, the Company adopted a new share option scheme (the "**New Scheme**") as the share option scheme adopted on 22 July 2002 (the "**Old Scheme**") expired on 21 July 2012. The purpose of the share option schemes is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option schemes 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.

Upon the expiration of the Old Scheme, share options granted under the Old Scheme remained outstanding until they lapse in accordance with the terms of the Old Scheme.

				Number of share options			
Name of category of participant	**Date of grant**	**Exercise period**	**Exercise price per share** (HK$)	**At 1 January 2016**	**Exercised during the period**	**Lapsed during the period**	**At 30 June 2016**
Employees and others							
In aggregate	8/4/2011	8/4/2011 – 7/4/2021	0.469	6,840,000	–	–	6,840,000
Total				6,840,000	–	–	6,840,000

Particulars of the share options under the Old Scheme and their movements during the six months ended 30 June 2016 are set out below:

Name of category of participant	Date of grant	Exercise period	Exercise price per share (HK$)	Number of share options At 1 January 2016	Exercised during the period	Lapsed during the period	At 30 June 2016
Directors							
Mr. ZHANG Xinyu	3/4/2013	3/4/2013 – 2/4/2018	0.275	45,600,000	–	–	45,600,000
Subtotal				45,600,000	–	–	45,600,000
Employees and others							
In aggregate	3/4/2013	3/4/2013 – 2/4/2018	0.275	68,400,000	–	–	68,400,000
Subtotal				68,400,000	–	–	68,400,000
Total				114,000,000	–	–	114,000,000

No share option was granted under the New Scheme during the six months ended 30 June 2016.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far is known to any Director, as at 30 June 2016, 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 shares held	Approximate percentage of shareholding
LIE Haiquan	Beneficial owner	1,837,036,000	19.28%
	Interest in controlled corporations (Note)	2,091,323,357	21.95%
	Total	3,928,359,357	41.23%

Note: 2,055,887,357 shares and 35,436,000 shares are held by Winner Mind Investments Limited and Golden Ocean Assets Management Limited respectively, both companies are wholly-owned by Mr. LIE Haiquan. Thus, he was deemed to be interested in these 2,091,323,357 shares pursuant to the SFO.

Save as disclosed above, the Company had no notice of any interests and short positions to be recorded pursuant to Section 336 of the SFO as at 30 June 2016.

CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and the code provisions (the "**Code**") as set out in the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules. The principles adopted by the Company emphasis a quality board, transparency and accountability to shareholders. The Company has complied with the Code throughout the period under review, with the exception for the following deviations:

Under code provision A.2.1, the responsibilities between chairman and chief executive officer should be divided. Mr. Cheung Sing Tai is the Chairman and the Chief Executive Officer of the Company. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being independent non-executive directors.

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 (the "**Articles**") and the Code. Accordingly, the Company considers that sufficient measures have been taken to deal with the requirement in respect of the appointment terms of non-executive Directors as required under the code provision.

Under code provision D.1.4, the Company should have formal letters of appointment for Directors setting out the key terms and conditions of their appointment. Except for Mr. CHEUNG Sing Tai, and Mr. ZHANG Xinyu, the Company did not have formal letters of appointment for Directors. However, the Directors shall be subject to retirement by rotation in accordance with the Articles. In addition, the Directors are required to refer to the guidelines set out in "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-executive Directors" (if applicable) published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors. Besides, the Directors are required to comply with the requirements under statute and common law, the GEM Listing Rules, legal and other regulatory requirements and the Company's business and governance policies.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company adopted 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 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 six months ended 30 June 2016.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or substantial shareholders of the Company or any of their respective close 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 six months ended 30 June 2016.

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 six months ended 30 June 2016.

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 system and to review the risk management and internal controls systems of the Group. The Audit Committee has reviewed the Company's unaudited financial statements for the six months ended 30 June 2016 and is of the opinion that such statements have complied with the applicable accounting standards and disclosure requirements.

By Order of the Board
Neo Telemedia Limited
CHEUNG Sing Tai
Chairman and Chief Executive Officer

Hong Kong, 10 August 2016

As at the date of this report, the Board comprises three executive Directors, namely Mr. CHEUNG Sing Tai (Chairman and Chief Executive Officer), Mr. ZHANG Xinyu and Mr. XU Gang and three independent non-executive Directors, namely Mr. LEUNG Ka Wo, Ms. XI Lina and Mr. HUANG Zhixiong.

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