



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 2018



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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 GEM of the Stock Exchange 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 in this report misleading.*

UNAUDITED RESULTS

The board of directors (the “**Board**”) of Neo Telemedia Limited (the “**Company**”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the three months ended 31 March 2018 together with comparative unaudited figures for the corresponding period of 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | Notes | For the three months ended 31 March | |
|-----------------------------------|-------|--|---------------------------------|
| | | 2018 (Unaudited) HK\$'000 | 2017 (Unaudited) HK\$'000 |
| Turnover | 3 | 616,443 | 147,707 |
| Cost of sales | | (562,045) | (122,072) |
| Gross profit | | 54,398 | 25,635 |
| Other income and gains | | 9,990 | 1,474 |
| Gain on disposal of subsidiaries | | – | 1,092 |
| Selling and marketing costs | | (9,656) | (5,940) |
| Administrative and other expenses | | (58,469) | (31,352) |
| Share of results of joint venture | | 91 | – |
| Finance costs | | (2,037) | (505) |
| Loss before income tax | | (5,683) | (9,596) |
| Income tax (expense)/credit | 4 | (1,715) | 825 |
| Loss for the period | | (7,398) | (8,771) |
| Attributable to: | | | |
| Owners of the Company | | (8,878) | (8,608) |
| Non-controlling interests | | 1,480 | (163) |
| | | HK cents | HK cents |
| Loss per share | 6 | | |
| – basic | | (0.09) | (0.09) |
| – diluted | | (0.09) | (0.09) |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | For the three months ended 31 March | |
|---|--|---------------------------------|
| | 2018 (Unaudited) HK\$'000 | 2017 (Unaudited) HK\$'000 |
| Loss for the period | (7,398) | (8,771) |
| Other comprehensive income/(loss): | | |
| Items that may be subsequently reclassified to profit or loss: | | |
| Exchange difference arising on translation of foreign operations | 43,278 | 6,355 |
| Realisation of translation reserve upon disposal of subsidiaries | – | (25) |
| Total comprehensive income/(loss) for the period | 35,880 | (2,441) |
| Attributable to: | | |
| Owners of the Company | 30,272 | (2,604) |
| Non-controlling interests | 5,608 | 163 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

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

The address of the registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and its principal place of business in Hong Kong is located at Room 1906-8, 19th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

The condensed consolidated 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 and some subsidiaries’ functional currency is US Dollars, the functional currency of the Company and its remaining subsidiaries are HK\$. The reason for selecting HK\$ as its presentation currency is that the Company is a public company listed on GEM, where most of the investors are located in Hong Kong.

The Company is an investment holding company and the principal activities of its subsidiaries are sale of telecommunication products and services and operation of Internet finance platform business.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities on GEM. The unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

In the current 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 above new or revised HKFRSs has had no material effect on the Group’s financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

The accounting policies used in the preparation of the unaudited condensed consolidated financial statements have been consistently applied by the Group and are consistent with those used in preparing the Company's annual audited financial statements for the year ended 31 December 2017.

The unaudited condensed consolidated financial statements for the three months ended 31 March 2018 have not been audited or reviewed by the Company's auditors, but have been reviewed by the audit committee of the Company.

3. TURNOVER

The Group was principally engaged in sale of telecommunication products and services and Internet finance platform business during the three months ended 31 March 2018. An analysis of turnover is as follows:

| | For the three months ended 31 March | |
|---|--|---------------------------------|
| | 2018 (unaudited) HK\$'000 | 2017 (unaudited) HK\$'000 |
| Sale of telecommunication products and services | 590,241 | 135,326 |
| Internet finance platform | 23,002 | 11,785 |
| Others | 3,200 | 596 |
| | 616,443 | 147,707 |

Note:

Others include logistics related business and provision of insurance brokerage services business.

4. **INCOME TAX (EXPENSE)/CREDIT**

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries are 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company, being qualified as a new and high technology enterprise, are eligible for a preferential Enterprise Income Tax rate of 15%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

5. **DIVIDEND**

A final dividend for the year ended 31 December 2017 of 0.38 HK cent per ordinary share, in an aggregate amount of approximately HK\$36,184,000, was recommended by the directors of the Company on 27 March 2018 and is subject to approval by the shareholders at the 2018 annual general meeting to be held on 29 May 2018.

The Directors resolved not to declare any dividend for the three months ended 31 March 2018 (2017: Nil).

6. LOSS PER SHARE

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

| | For the three months ended 31 March | |
|--|--|---------------------------------|
| | 2018 (unaudited) HK\$'000 | 2017 (unaudited) HK\$'000 |
| Loss attributable to owners of the Company | (8,878) | (8,608) |

| | For the three months ended 31 March | |
|--|--|---------------------|
| | 2018 (unaudited) | 2017 (unaudited) |
| Weighted average number of ordinary shares for the purpose of basic loss per ordinary share at the end of period | 9,527,956,345 | 9,528,844,345 |
| Effect of dilutive potential ordinary share: share options | - | - |
| Weighted average number of ordinary shares for the purpose of diluted loss per ordinary share at the end of period | 9,527,956,345 | 9,528,844,345 |

The computation of diluted loss per share for the periods ended 31 March 2017 and 2018 does not assume the exercise of share options since it would result in an anti-dilutive effect on loss per share.

7. SHARE CAPITAL AND RESERVES

| | Attributable to owners of the Company | | | | | | Sub-total HK\$'000 | Non- controlling interests HK\$'000 | Total HK\$'000 |
|---|---------------------------------------|------------------------------|---|------------------------------------|----------------------------------|-----------------------------------|-----------------------|--|-------------------|
| | Share capital HK\$'000 | Share premium HK\$'000 | Share options reserve HK\$'000 | Translation reserve HK\$'000 | Statutory reserve HK\$'000 | Accumulated losses HK\$'000 | | | |
| At 1 January 2017 (audited) | 952,884 | 1,832,493 | 15,040 | (45,387) | 7,375 | (1,319,999) | 1,442,406 | 105,101 | 1,547,507 |
| Loss for the period | - | - | - | - | - | (8,608) | (8,608) | (163) | (8,771) |
| Other comprehensive income/(loss): | | | | | | | | | |
| Exchange difference on translation of foreign operations | - | - | - | 6,029 | - | - | 6,029 | 326 | 6,355 |
| Realisation of translation reserve upon disposal of subsidiaries | - | - | - | (25) | - | - | (25) | - | (25) |
| Total comprehensive income/(loss) for the period | - | - | - | 6,004 | - | (8,608) | (2,604) | 163 | (2,441) |
| Disposal of subsidiaries | - | - | - | - | - | - | - | (48) | (48) |
| Capital contribution by non-controlling interests | - | - | - | - | - | - | - | 5,513 | 5,513 |
| At 31 March 2017 (unaudited) | 952,884 | 1,832,493 | 15,040 | (39,383) | 7,375 | (1,328,607) | 1,439,802 | 110,729 | 1,550,531 |
| At 1 January 2018 (audited) | 952,884 | 1,796,283 | 15,040 | 15,365 | 1,893 | (1,271,010) | 1,510,455 | 136,287 | 1,646,742 |
| (Loss)/profit for the period | - | - | - | - | - | (8,878) | (8,878) | 1,480 | (7,398) |
| Other comprehensive income: | | | | | | | | | |
| Exchange difference on translation of foreign operations | - | - | - | 39,150 | - | - | 39,150 | 4,128 | 43,278 |
| Total comprehensive income/(loss) for the period | - | - | - | 39,150 | - | (8,878) | 30,272 | 5,608 | 35,880 |
| Recognition of equity-settled share-based payment | - | - | 9,485 | - | - | - | 9,485 | - | 9,485 |
| Capital contribution by non-controlling interests | - | - | - | - | - | - | - | 1,875 | 1,875 |
| Repurchase of shares | (666) | (605) | - | - | - | - | (1,271) | - | (1,271) |
| At 31 March 2018 (unaudited) | 952,218 | 1,795,678 | 24,525 | 54,515 | 1,893 | (1,279,888) | 1,548,941 | 143,770 | 1,692,711 |

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 31 March 2018, the Group recorded a turnover of approximately HK\$616,443,000 (2017: HK\$147,707,000), representing an increase of approximately HK\$468,736,000 or 317.3% as compared to the same period in last year. The increase in turnover was mainly due to the diversification of products of Million Ace Group by selling mobile phones of different brand names. The Group also recorded a loss attributable to owners of the Company of approximately HK\$8,878,000 (2017: HK\$8,608,000) for the three months ended 31 March 2018, mainly due to the grant of share options by the Company on 31 January 2018 resulting in share-based payment expense of approximately HK\$9.5 million for the three months ended 31 March 2018.

Business Review

Sale of telecommunication products and services

Blueseas 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*) and its subsidiaries (collectively referred to as “**Blueseas Mobile Group**”) are mainly engaged in trading of telecommunication products, provision of Internet data center (“**IDC**”), WIFI, system integration and value-added Internet services and software development in the People’s Republic of China (“**PRC**”). Together with a turnover of approximately HK\$81.5 million (2017: HK\$45.4 million) contributed by 廣州市資拓科技有限公司 (Guangzhou Nowtop Technology Company Limited*) and its subsidiaries, Blueseas Mobile Group recorded an aggregate turnover of approximately HK\$186.8 million (2017: HK\$73.9 million) for the period under review. The increase in turnover was mainly due to the revenue growth in the trading of telecommunication products business.

Million Ace Group

Million Ace Limited and its subsidiaries (collectively referred to as “**Million Ace Group**”) are mainly engaged in trading of mobile phones, computers and the relevant devices. Million Ace Group contributed a turnover of approximately HK\$403.4 million (2017: HK\$61.4 million) in the period under review. The increase in turnover was mainly due to the diversification of products by selling mobile phones of different brand names.

* for identification purpose only

Internet finance platform business

During the period under review, the Group continued to expand its customer base of its Internet finance platforms in 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.*). The revenue of approximately HK\$23.0 million (2017: HK\$11.8 million) contributed to the Group represented service or commission income through the operations of these platforms.

Business Prospects

Looking forward, the Group will continue to expand its IDC business. The construction of the IDCs in Huizhou and Heshan City will be completed and expected to be put in service in the second half of 2018 and the first half of 2019 respectively. We expect more revenue will be contributed from these IDCs in the coming years. Moreover, the Group will continue to explore potential investment opportunities in IDC, Internet of Things, cloud computing and related businesses. With favorable policies and support from the PRC government towards these fast growing sectors, the management is optimistic that the Group will be able to reward shareholders with better results in the foreseeable future.

Profit Guarantee in relation to the Acquisition of Guangzhou Nowtop

Reference is made to the announcement of the Company dated 4 March 2016 (the “**Announcement**”) in relation to the acquisition of 60% equity interest of 廣州市資拓科技有限公司 (Guangzhou Nowtop Technology Company Limited*) (“**Guangzhou Nowtop**”).

As disclosed in the Announcement, pursuant to the conditional sale and purchase agreement, the vendor of Guangzhou Nowtop has guaranteed and undertaken that the 2017 audited net profit after tax for the year ended 31 December 2017 (“**2017 Audited Profit**”) as shown in the audited financial statements for the year ended 31 December 2017 (“**2017 Audited Report**”) of Guangzhou Nowtop shall not be less than HK\$40,000,000.

According to the 2017 Audited Report of Guangzhou Nowtop, the 2017 Audited Profit is approximately HK\$40,043,000 and therefore the guaranteed profit of HK\$40,000,000 has been fulfilled.

* for identification purpose only

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 March 2018, 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 securities of the Company

| Name of Director | Nature of interests | Number of shares/ underlying shares held | Approximate percentage of shareholding |
|------------------|--|---|--|
| Dr. LIE Haiquan | Beneficial owner | 2,067,184,000 | 21.71% |
| | Interest in controlled corporations (Note 1) | 2,091,923,357 | 21.97% |
| Mr. ZHANG Xinyu | Beneficial owner | 45,600,000 (Note 2) | 0.48% |
| Mr. XU Gang | Beneficial owner | 1,422,000 | 0.01% |
| | Interest of spouse (Note 3) | 72,000 | Negligible |

Notes:

- 2,055,887,357 shares and 36,036,000 shares are held by Winner Mind Investments Limited (“Winner Mind”) and Golden Ocean Assets Management Limited respectively, both companies are wholly-owned by Dr. LIE Haiquan. Thus, he was deemed to be interested in these 2,091,923,357 shares pursuant to the SFO.
- These 45,600,000 underlying shares are derived from the share options granted by the Company.
- Mr. XU Gang is interested in 72,000 shares of the Company held by his spouse, Ms. YANG Jintong.

Save as disclosed above, the Directors did not have any interests or short positions in the securities of the Company as at 31 March 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "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. Particulars of the share options under the Old Scheme and their movements during the three months ended 31 March 2018 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 2018 | Exercised during the period | Lapsed during the period | At 31 March 2018 |
| 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 New Scheme and their movements during the three months ended 31 March 2018 are set out below:

| Name of category of participant | Date of grant | Exercise period | Exercise price per share (HK\$) | Number of share options | | | | | At 31 March 2018 |
|---------------------------------|---------------|-----------------------|---------------------------------|-------------------------|---------------------------|-----------------------------|--------------------------|-----------------------------|------------------|
| | | | | At 1 January 2018 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the period | |
| Directors | | | | | | | | | |
| Dr. LIE Haiquan | 31/1/2018 | 31/1/2018 – 30/1/2021 | 0.250 | - | 9,000,000 | - | - | (9,000,000) | - |
| Mr. CHEUNG Sing Tai | 31/1/2018 | 31/1/2018 – 30/1/2021 | 0.250 | - | 18,000,000 | - | - | (18,000,000) | - |
| Mr. ZHANG Xinyu | 3/4/2013 | 3/4/2013 – 2/4/2018 | 0.275 | 45,600,000 | - | - | - | - | 45,600,000 |
| | 31/1/2018 | 31/1/2018 – 30/1/2021 | 0.250 | - | 6,000,000 | - | - | (6,000,000) | - |
| Mr. XU Gang | 31/1/2018 | 31/1/2018 – 30/1/2021 | 0.250 | - | 6,000,000 | - | - | (6,000,000) | - |
| Mr. TAO Wei | 31/1/2018 | 31/1/2018 – 30/1/2021 | 0.250 | - | 6,000,000 | - | - | (6,000,000) | - |
| Mr. ZHANG Bo | 31/1/2018 | 31/1/2018 – 30/1/2021 | 0.250 | - | 6,000,000 | - | - | (6,000,000) | - |
| Mr. ZHANG Zihua | 31/1/2018 | 31/1/2018 – 30/1/2021 | 0.250 | - | 1,000,000 | - | - | (1,000,000) | - |
| Ms. XI Lina | 31/1/2018 | 31/1/2018 – 30/1/2021 | 0.250 | - | 1,000,000 | - | - | (1,000,000) | - |
| Mr. HUANG Zhixiong | 31/1/2018 | 31/1/2018 – 30/1/2021 | 0.250 | - | 1,000,000 | - | - | (1,000,000) | - |
| Subtotal | | | | 45,600,000 | 54,000,000 | - | - | (54,000,000) | 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 |
| In aggregate | 31/1/2018 | 31/1/2018 – 30/1/2021 | 0.250 | - | 195,000,000 | - | - | - | 195,000,000 |
| Subtotal | | | | 68,400,000 | 195,000,000 | - | - | - | 263,400,000 |
| Total | | | | 114,000,000 | 249,000,000 | - | - | (54,000,000) | 309,000,000 |

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far is known to the Directors, as at 31 March 2018, 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 |
|--------------------|---------------------|-----------------------|--|
| Winner Mind (Note) | Beneficial owner | 2,055,887,357 | 21.59% |

Note: Winner Mind is wholly-owned by Dr. LIE Haiquan.

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 three months ended 31 March 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the three months ended 31 March 2018, the Company had repurchased a total of 6,660,000 shares of HK\$0.10 each on the Stock Exchange at an aggregate consideration of approximately HK\$1,271,000. All of the repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Details of the repurchases are as follows:

| Month/Year | Number of shares repurchased | Highest price paid per share HK\$ | Lowest price paid per share HK\$ | Aggregate consideration HK\$'000 |
|---------------|------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|
| February 2018 | 6,660,000 | 0.198 | 0.179 | 1,271 |

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the three months ended 31 March 2018.

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 three months ended 31 March 2018 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
Deputy Chairman

Hong Kong, 10 May 2018

As at the date of this report, the Board comprises five executive Directors, namely Mr. CHEUNG Sing Tai (Deputy Chairman and Chief Executive Officer), Mr. ZHANG Xinyu, Mr. XU Gang, Mr. TAO Wei and Mr. ZHANG Bo, one non-executive Director, namely Dr. LIE Haiquan (Chairman), and three independent non-executive Directors, namely Mr. ZHANG Zihua, Ms. XI Lina and Mr. HUANG Zhixiong.

This report will remain on the “Latest Company Announcements” page of the GEM website <http://www.hkgem.com> for at least seven days from the date of its posting and on the website of the Company at www.neo-telemedia.com.