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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)

DISCLOSEABLE TRANSACTION

THE ACQUISITION

The Board is pleased to announce that on 25 January 2013 (after trading hours), the Company, the Vendor and Ms. Chang entered into the Acquisition Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Share at an initial consideration of HK\$69,616,800 (subject to adjustments), but in any event subject to a maximum aggregate Consideration of HK\$194,400,000. The Consideration will be settled by cash and the issue of Consideration Shares by the Company.

GENERAL

As the relevant percentage ratios under the GEM Listing Rules in respect of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules and is subject to the announcement requirement under the GEM Listing Rules.

INTRODUCTION

Reference is made to the announcement of the Company dated 6 July 2012 in relation to the Acquisition. The Board is pleased to announce that on 25 January 2013 (after trading hours), the Company, the Vendor and Ms. Chang entered into the Acquisition Agreement, pursuant to which the Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Share at an initial consideration of HK\$69,616,800 (subject to adjustments), but in any event subject to a maximum aggregate Consideration of HK\$194,400,000. The Consideration will be settled by cash and the issue of Consideration Shares by the Company.

THE ACQUISITION AGREEMENT

Date

25 January 2013

Parties

- (A) Purchaser: The Company
- (B) Vendor: Lucky Smile Enterprises Limited
- (C) Guarantor: Ms. Chang

The Vendor is an investment holding company and is beneficially and wholly-owned by Ms. Chang. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendor and Ms. Chang are Independent Third Parties as at the date of the Acquisition Agreement.

Subject matter of the Acquisition Agreement

Pursuant to the Acquisition Agreement, the Vendor has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Share. The Sale Share represents the entire issued share capital of the Target Company as at the date of the Acquisition Agreement.

Ms. Chang has guaranteed to the Company the performance of the obligations of the Vendor pursuant to the Acquisition Agreement.

Consideration

The initial consideration is HK\$69,616,800 (subject to adjustments as detailed below) and the maximum aggregate Consideration for the Sale Share is HK\$194,400,000, which shall be payable to the Vendor by the Company in the following manner:

1. the initial consideration of HK\$69,616,800 shall be payable by the Company in full in cash on the Completion Date; and

2. an aggregate maximum of HK\$124,783,200 (the “**Variable Consideration**”) shall be payable by the Company in installments by way of the issue of an aggregate maximum of 173,310,000 Consideration Shares if the number of Users reaches 400,000 within one year from the Completion Date. The Company shall review (the “**Review**”) the performance of the Business of the Target Group every three months during the one year from the Completion Date. The Company shall pay a portion of the Variable Consideration to the Vendor by way of the issue of such number of the Consideration Shares at the Issue Price calculated as follows:

$$I = (\text{HK\$}381.60) \times U - B$$

Where,

I = the amount of Variable Consideration payable for each installment

U = number of Users based on the relevant Review capped at 400,000 – 73,000, being the benchmark number of Users as agreed by relevant parties to the Acquisition

B = the aggregate amount of Variable Consideration paid to the Vendor prior to the said installment

For the avoidance of doubt, the Company shall not pay any Variable Consideration for number of Users exceeding 400,000, nor shall the Company pay any Variable Consideration in respect of an increase in the number of Users after expiry of the 1 year period commencing from the Completion Date. Further, for each installment of Consideration Shares, if the number of Consideration Shares to be issued contains a fraction, the fraction shall be ignored and no Consideration Share shall be issued in respect thereof.

The Consideration was agreed at after arm’s length negotiations between the Vendor and the Company after taking into account, including but not limited to (i) the prospects of the Target Group; (ii) the fair market value of the Target Group of HK\$200,375,000 as at 31 December 2012 based on a preliminary valuation from an independent valuer engaged by the Company; and (iii) that CERNET Investment and A1 Net Company shall increase the registered capital of CERNET Wifi to RMB40,000,000 prior to Acquisition Completion. Pursuant to the aforesaid preliminary valuation which adopted the market approach, the fair market value of the Target Group is HK\$200,375,000 based on 400,000 Users and the fair market value of the Target Group is HK\$36,710,000 based on 73,283 Users, being the average number of Users for the four months ended 31 December 2012. The Board considers that the basis of arriving at the Consideration (including the adjustment mechanism for the Variable Consideration) is fair and reasonable and in the interests of the Group and of the Shareholders as a whole.

The Company intends to settle the cash Consideration by its internal resources and/or through debt/equity fund raising activities.

Conditions precedent

Acquisition Completion is conditional upon the following conditions being satisfied:

- (A) all necessary authorisations, consents and approvals in connection with the Acquisition Agreement and the transactions contemplated thereunder having been granted by the relevant governmental or official authorities or any third parties, and such authorisations, consents and approvals remain valid and fully enforceable up to the Completion Date, and no rules or regulations having been imposed by the relevant governmental or official authorities or third parties that would prohibit or materially delay the transactions contemplated under the Acquisition Agreement or would materially adversely affect the operations of the Target Group after Acquisition Completion;
- (B) the issue of a valuation report on the Target Group to the satisfaction of the Company;
- (C) the issue of a PRC legal opinion in relation to the Target Group and the Business to the satisfaction of the Company;
- (D) the Vendor having provided to the Company a certificate of incumbency and a certificate of good standing of the Target Company;
- (E) the Company shall have been satisfied with the due diligence result in respect of the Target Group;
- (F) all declaration, warranties and undertakings provided by the Vendor in the Acquisition Agreement are true, accurate and not misleading;
- (G) there has not been any material breach of the terms and conditions of the Acquisition Agreement by the Vendor prior to Acquisition Completion;
- (H) the Stock Exchange having granted its permission for the listing of and to deal in the Consideration Shares; and
- (I) the registered capital of CERNET Wifi having been increased to RMB40,000,000, with A1 Net Company having fully paid up its subscribed capital of CERNER Wifi, namely the sum of RMB 30,000,000.

The Company may at any time waive in writing any conditions precedent above (other than conditions (A) and (H)). If the conditions precedent have not been fulfilled or waived by the Company on or before 24 April 2013 (or such other date as agreed by the parties), the Acquisition Agreement shall lapse, whereupon all rights and obligations of the parties to the Acquisition Agreement shall cease to have effect except in respect of any accrued rights and obligations of such parties.

Acquisition Completion

Acquisition Completion shall take place within 7 Business Days (or such other date as the Vendor and the Company may agree in writing) after all conditions under the Acquisition Agreement having been fulfilled or waived (as the case may be).

THE CONSIDERATION SHARES

Pursuant to the Acquisition Agreement, the Company shall issue and allot, credited as fully paid, a maximum of 173,310,000 Consideration Shares at the Issue Price of HK\$0.72 per Consideration Share to the Vendor as settlement of the Variable Consideration for the Acquisition. The Issue Price was arrived at after arm's length negotiation between the Company and the Vendor with reference to the recent market prices of the Shares. The Issue Price represents:

- (i) a discount of approximately 7.7% to the closing price of HK\$0.78 per Share as quoted on the Stock Exchange on the date of this announcement;
- (ii) a discount of approximately 6.5% to the average closing price of HK\$0.77 per Share for the last five consecutive trading days preceding and including the date of this announcement;
- (iii) a discount of approximately 2.4% to the average closing price of HK\$0.738 per Share for the last ten consecutive trading days preceding and including the date of this announcement; and
- (iv) a premium of approximately 173.8% over the audited consolidated net asset value per Share as at 30 June 2012 of approximately HK\$0.263 per Share (calculated by dividing the net asset value of the Company as at 30 June 2012 by the number of issued Shares as at the date of this announcement).

The Consideration Shares represent approximately 7.45% of the existing issued share capital of the Company and approximately 6.93% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares respectively. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Consideration Shares will be issued and allotted pursuant to the General Mandate. Prior to the date of the Acquisition Agreement, the Company has issued or agreed to issue 183,000,000 Shares under the General Mandate. Upon issue of the 173,310,000 Consideration Shares, the Company will have 109,074,158 Shares available for issue and allotment under the General Mandate.

INFORMATION ON THE TARGET GROUP

The Target Company

The Target Company is incorporated in the British Virgin Islands with limited liability and is wholly-owned by the Vendor as at the date of this announcement. The principal activity of the Target Company is investment holding.

Cloud Computing Investment

Cloud Computing Investment is incorporated in Hong Kong with limited liability and is wholly-owned by the Target Company as at the date of this announcement. The principal activity of Cloud Computing Investment is investment holding.

China Cloud Computing

China Cloud Computing is a limited liability company established under the laws of the PRC and is a wholly-foreign-owned enterprise. China Cloud Computing is principally engaged in providing commerce, information and technical consultancy services to A1 Net Company and CERNET Wifi. The registered capital of China Cloud Computing is RMB100 million which is yet to be paid up. After Acquisition Completion, the Company will inject RMB100 million to China Cloud Computing to pay up the registered capital.

A1 Net Company

A1 Net Company is a limited liability company established under the laws of the PRC and is owned by two persons, who are Independent Third Parties, as trustee on behalf of Ms. Chang. A1 Net Company is controlled by China Cloud Computing by way of certain structured contracts. A1 Net Company is principally engaged in investment holding.

CERNET Wifi

CERNET Wifi is a limited liability company established under the laws of the PRC. CERNET Wifi is owned as to 75% by A1 Net Company and 25% by CERNET Investment respectively. CERNET Wifi is principally engaged in computer, software and associated equipment sales, technology development, transfer, consultancy and computer system services. CERNET Wifi has entered into asset leasehold and cooperation contracts with CERNET pursuant to which CERNET Wifi is entitled to the economic benefits generated by the assets owned by CERNET (the “**Asset Leasehold and Cooperation Contracts**”) in relation to the personal broadband access services connecting the higher educational institutions of the PRC and the related internet content and value-added telecommunication services (the “**Personal Broadband Access Services**”).

Financial information of the Target Group

Set out below is the unaudited consolidated financial information of the Target Group (excluding A1 Net Company and CERNET Wifi) for the period from 23 March 2012, being the date of incorporation of the Target Company, to 31 December 2012 prepared in accordance with Hong Kong Financial Reporting Standards:

	For the period from 23 March 2012 to 31 December 2012 (Unaudited) HK\$
Turnover	—
Net loss before taxation and extraordinary items	9,532
Net loss after taxation and extraordinary items	9,532

The unaudited consolidated net liabilities of the Target Group (excluding A1 Net Company and CERNET Wifi) was HK\$9,524 as at 31 December 2012.

Set out below is the unaudited financial information of A1 Net Company for the period from 10 April 2012, being its date of establishment, to 31 December 2012 prepared in accordance with PRC accounting standards:

	For the period from 10 April 2012 to 31 December 2012 (Unaudited) RMB
Turnover	—
Net loss before taxation and extraordinary items	2,885
Net loss after taxation and extraordinary items	2,885

The unaudited net asset of A1 Net Company was approximately RMB4.0 million as at 31 December 2012.

Each of the Target Company, Cloud Computing Investment, China Cloud Computing and A1 Net Company has not engaged in any operation during the period from 23 March 2012 to 31 December 2012.

Set out below is the unaudited financial information of CERNET Wifi for the two years ended 31 December 2012 prepared in accordance with PRC accounting standards:

	For the year ended	
	31 December	
	2011	2012
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover (<i>Note</i>)	—	—
Net loss before taxation and extraordinary items	2,942	948
Net loss after taxation and extraordinary items	2,942	948

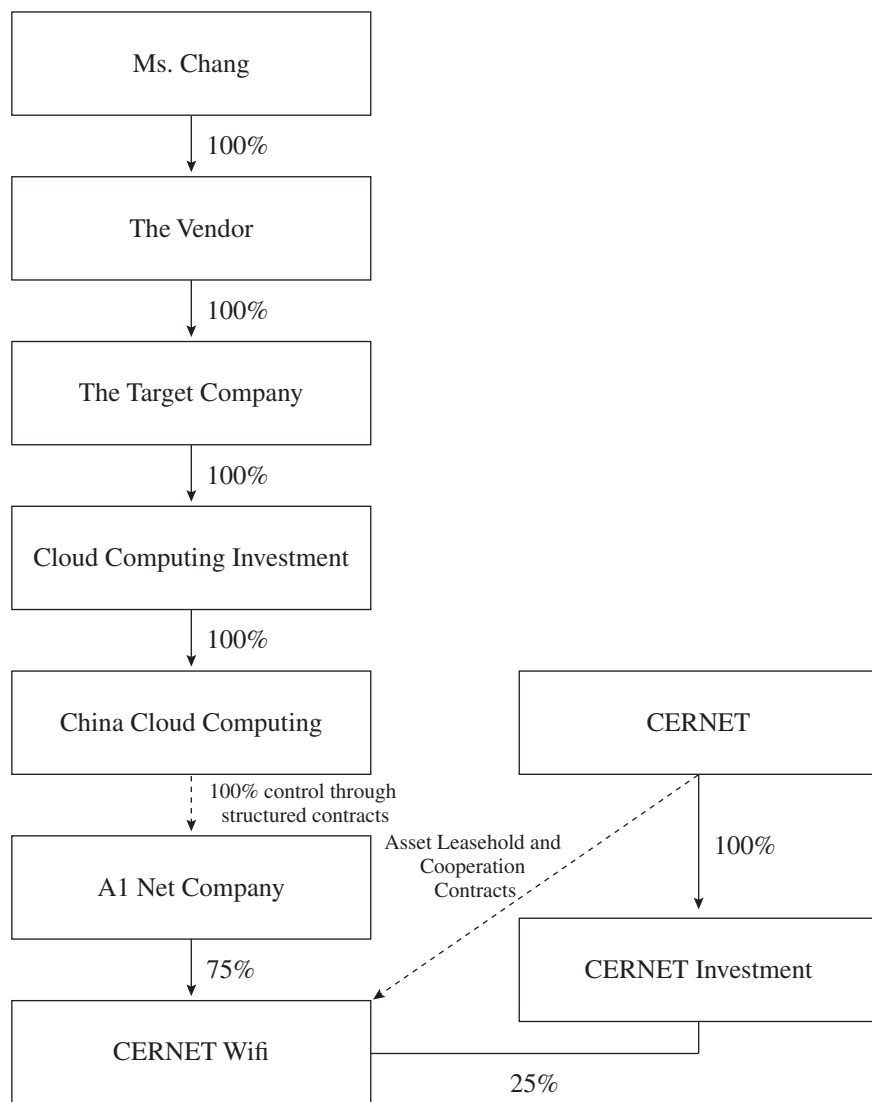
Note:

CERNET Wifi was not entitled to the economic benefits generated by the Personal Broadband Access Services and did not incur any turnover for the two years ended 31 December 2012 since the Asset Leasehold and Cooperation Contracts were not effective during the respective period. The Asset Leasehold and Cooperation Contracts are effective as at the date of the Acquisition Agreement.

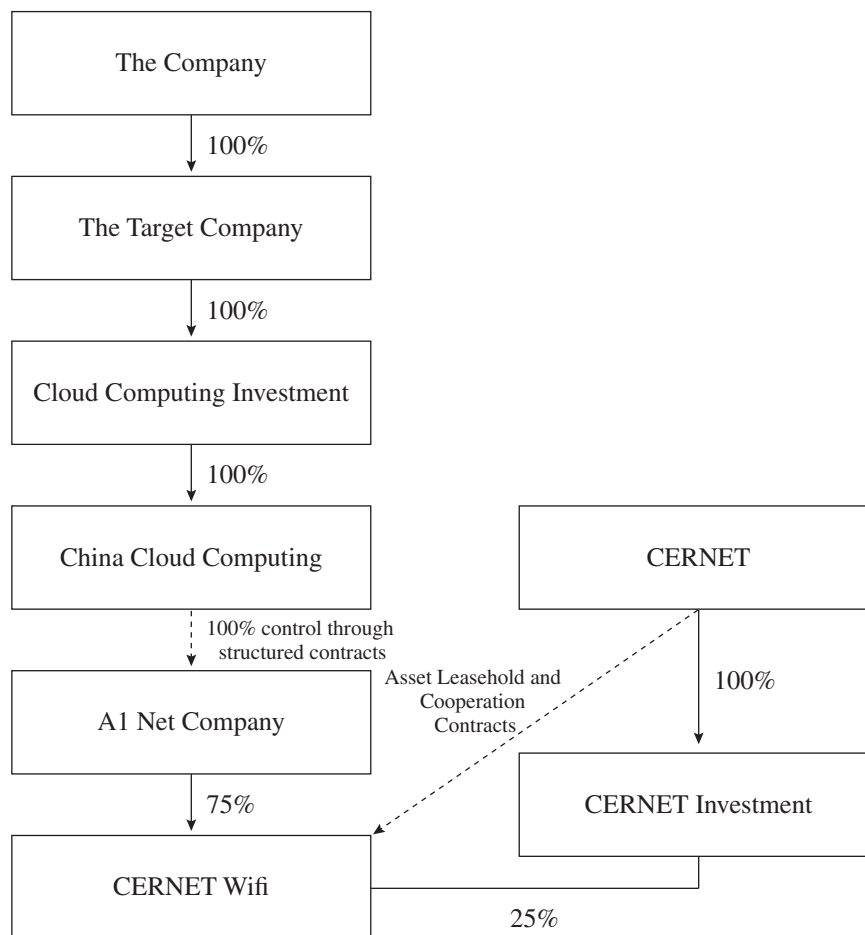
The unaudited net liabilities of CERNET Wifi was approximately RMB0.9 million as at 31 December 2012.

Shareholding structure as at the date of this announcement

Shareholding structure as at the date of this announcement



Shareholding structure immediately after Acquisition Completion



REASONS FOR AND BENEFITS OF THE ACQUISITION

The principal activity of the Company is investment holding and the principal activities of its operating subsidiaries are the sale and distribution of telecommunication products, the design and production of intelligent traffic signboards, provision of cable and wireless broadband services and electronic media services.

As disclosed in the announcement of the Company dated 6 July 2012, the Company entered into negotiation with a former Director regarding the Acquisition. The former Director introduced the business opportunity of the Acquisition to the Company. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the former Director has neither interest in the Acquisition nor entitlement to any fee for the introduction. The Company has been actively involved in merger and acquisition activities of companies which are engaged in the business of telecommunication products and services, electronic products, computer software and hardware in the PRC. The Company considers the Acquisition enables the Group to capture high growth opportunity in the personal broadband access services connecting the higher educational institutions of the PRC and the related internet content and value-added telecommunication services. The Directors consider that the Acquisition is in line with the business plan of the Company and in the interests of the Company and the Shareholders as a whole and that the terms of the Acquisition Agreement are fair and reasonable.

CHANGES IN THE COMPANY'S SHAREHOLDING STRUCTURE

Assuming there being no further issue (other than the Consideration Shares) or repurchase of Shares from the date of this announcement up to Acquisition Completion, the shareholding structure of the Company (i) as at the date of this announcement; and (ii) upon Acquisition Completion are set out below:

	As at the date of this announcement		Immediately after the Acquisition Completion and the allotment and issue of the maximum Consideration Shares	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Tread Up Investments Limited (<i>Note</i>)	13,038,000	0.56	13,038,000	0.52
The Vendor	–	–	173,310,000	6.93
Other public Shareholders	2,313,882,793	99.44	2,313,882,793	92.55
Total	<u>2,326,920,793</u>	<u>100.00</u>	<u>2,500,230,793</u>	<u>100.00</u>

Note: Tread Up Investments Limited was wholly-owned by Mr. LI Hongrong, who is a Director.

GENERAL

As the relevant percentage ratios under the GEM Listing Rules in respect of the Acquisition exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules and is subject to the announcement requirement under the GEM Listing Rules.

DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Share by the Company from the Vendor pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional agreement dated 25 January 2013 entered into among the Company, the Vendor and Ms. Chang in relation to the Acquisition
“Acquisition Completion”	completion of the Acquisition
“AGM”	the annual general meeting of the Company held on 19 December 2012

“associates”	has the meaning ascribed to it in the GEM Listing Rules
“A1 Net Company”	北京天一金網科技有限公司 (A1 Net Technology Company Limited*), a limited liability company established under the laws of the PRC
“Board”	the board of Directors
“Business”	the provision of personal broadband access services of CERNET operated by CERNET Wifi and all networks of CERNET connecting the higher educational institutions of the PRC and the related internet content and value-added telecommunication services
“Business Day”	a day (excluding a Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are open for general business during their normal business hours
“CERNET”	賽爾網絡有限公司 (CERNET Company Limited*), a limited liability company established under the laws of the PRC
“CERNET Investment”	賽爾投資有限公司 (CERNET Investment Company Limited*), a limited liability company established under the laws of the PRC
“CERNET Wifi”	賽爾無線網絡科技(北京)有限公司 (CERNET Wifi Technology (Beijing) Company Limited*), a limited liability company established under the laws of the PRC
“China Cloud Computing”	中瑞賽爾網絡科技有限公司 (China Cloud Computing Company Limited*), a limited liability company established under the laws of the PRC
“Cloud Computing Investment”	Cloud Computing Investment Limited (中國雲端科技投資有限公司), a company incorporated in Hong Kong with limited liability
“Company”	Neo Telemedia Limited, a company incorporated in the Cayman Islands with limited liability, whose issued Shares are listed on GEM
“Completion Date”	the date falling within 7 Business Days after the fulfillment or waiver (as the case may be) of the conditions precedent of the Acquisition Agreement or such other date as agreed by the respective parties to the Acquisition Agreement
“connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules and the word “connected” shall be construed accordingly
“Consideration”	the consideration payable by the Company under the Acquisition Agreement

“Consideration Shares”	maximum 173,310,000 new Shares that will be allotted and issued by the Company at the Issue Price as partial Consideration
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“General Mandate”	the general mandate granted to the Directors by the resolution of the Shareholders passed at the AGM to allot, issue and deal with Shares and to make or grant offers, agreements and options which may require Shares to be issued, allotted or dealt with, which is subject to the limit of 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the AGM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	party(ies) who is/are not connected with the Company and any director, chief executive or substantial shareholder of the Company and its subsidiaries or any of their respective associates
“Issue Price”	HK\$0.72 per Consideration Share
“Ms. Chang”	Ms. CHANG Hsin-lun, 張馨倫, the sole shareholder and sole director of the Vendor
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Share”	1 share in the capital of the Target Company, representing the entire issued share capital of the Target Company
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the issued Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Galaxy Palace Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability

“Target Group”	the Target Company and its subsidiaries
“User(s)”	subscriber(s) of the personal broadband access services
“Vendor”	Lucky Smile Enterprises Limited, a company incorporated under the laws of the British Virgin Islands with limited liability
“%”	per cent.

By order of the Board
Neo Telemedia Limited
LI Hongrong
Chairman

Hong Kong, 25 January 2013

As at the date hereof, the Board comprises four executive directors namely Mr. LI Hongrong (Chairman), Mr. Theo EDE, Mr. HU Yangjun and Mr. ZHANG Xinyu (Chief Executive Officer); and three independent non-executive directors, namely Mr. LAM Kin Kau, Mark, Professor SONG Junde and Professor CHEN Lujun.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement 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 announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at 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.

* For identification purpose only