THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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)

(1) PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) CONNECTED TRANSACTION IN RELATION TO THE UNDERWRITING ARRANGEMENT;
(4) CONNECTED TRANSACTION IN RELATION TO THE LOAN CAPITALISATION;
(5) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
AND
(6) NOTICE OF EXTRAORDINARY GENERAL MEETING

Underwriter to the Open Offer

WINNER MIND INVESTMENTS LIMITED

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

Opus Capital Limited
創富融資有限公司

Capitalized terms used in this cover page shall have the same meanings as those defined in this circular.

A letter from the Board is set out on pages 10 to 37 to this circular. A letter from the Independent Board Committee is set out on pages 38 to 39 of this circular. A letter from Opus Capital Limited containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 40 to 80 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Empire Room 1, 1/F., Empire Hotel Hong Kong Wan Chai, 33 Hennessy Road, Wanchai, Hong Kong at 11:00 a.m. on Thursday, 15 October 2015 is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use by the Shareholders at the extraordinary general meeting is enclosed herein. Whether or not you intend to attend and vote at the extraordinary general meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not later than 48 hours before the time for holding the extraordinary general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjourned meeting should you so wish.

The Open Offer is subject to the satisfaction of certain conditions as described under the section headed "Conditions of the Open Offer". In particular, it is subject to the Underwriter not terminating the Underwriting Agreement (see the section headed "Termination of the Underwriting Agreement" herein) on or before the Latest Time for Termination. Accordingly, the Open Offer may or may not become unconditional and may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealings in the Shares or Adjusted Shares up to the date when the conditions of the Open Offer are fulfilled.

This circular will remain on the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and on the website of the Company at www.neo-telemedia.com.

25 September 2015

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

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

If, prior to the Latest Time for Termination:

(1) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:

(a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not such event or change is of the same kind with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(2) any material adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any material adverse change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not such material adverse change is of the same kind with any of the foregoing; or

(6) any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to terminate the Underwriting Agreement if prior to the Latest Time for Termination:

(1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or

(2) any Specified Event comes to the knowledge of the Underwriter, and such breach or Specified Event will have a material adverse effect in the context of the Open Offer.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

CONTENT

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

"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"Announcement"	the announcement of the Company dated 11 August 2015 relating to, amongst other things, the proposed Open Offer, the application for Whitewash Waiver, the Underwriting Commission Arrangement, the Loan Capitalisation and the Increase in Authorised Share Capital
"associate(s)"	has the meaning described thereto in the GEM Listing Rules
"Board"	the board of Directors
"business day(s)"	any day (excluding, Saturday, Sunday and any day on which a tropical cyclone warning no.8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks in Hong Kong are open for business
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Company"	Neo Telemedia Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the GEM
"Complying Applications"	valid applications under the application forms made in accordance with the terms of the Prospectus Documents together with cheques or cashier's orders or other remittances for the full amount payable in respect of the Offer Shares being applied for under such application forms which are honoured on first or, at the discretion of the Underwriter, subsequent presentation

"connected person(s)"	has the meaning described thereto in the GEM Listing Rules
"controlling shareholder(s)"	has the meaning ascribed thereto under the Listing Rules
"Convertible Note(s)"	the convertible note(s) with an aggregate outstanding principal amount of HK$160,000,000 issued by the Company, details and principal terms of which are set out in the announcement of the Company dated 7 January 2013
"Court Order"	a Court order pursuant to Section 182 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance
"Director(s)"	director(s) of the Company for the time being
"EGM"	the extraordinary general meeting of the Company to be held at Empire Room 1, 1/F., Empire Hotel Hong Kong Wan Chai, 33 Hennessy Road, Wanchai, Hong Kong at 11:00 a.m. on Thursday, 15 October 2015 for the purpose of considering and, if thought fit, approving the resolutions in respect of the proposed Increase in Authorised Share Capital, the Open Offer, the Underwriting Agreement, the Whitewash Waiver, the Loan Capitalisation and the respective transactions contemplated thereunder
"Excluded Shareholders"	those Overseas Shareholders who, in the opinion of the Directors based on enquiry made in compliance with the GEM Listing Rules, are necessary or expedient to be excluded from the Open Offer on account of either of the legal restriction under the laws or requirements of the relevant regulatory body or stock exchange in such places
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate(s) of the Executive Director
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the GEM
"Golden Ocean"	Golden Ocean Assets Management Limited, a company incorporated in Hong Kong with limited liability, which is wholly and beneficially owned by Mr. Lie
"Group"	the Company and its subsidiaries

"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Increase in Authorised Share Capital"	the proposed increase in the authorised share capital of the Company from HK$1,000,000,000 divided into 10,000,000,000 Shares to HK$2,000,000,000 divided into 20,000,000,000 Shares
"Independent Board Committee"	a committee of the Board, comprising Mr. Leung Ka Wo, Mr. Chou Jianzhong, Ms. Xi Lina and Mr. Huang Zhixiong, being the independent non-executive Directors, constituted to advise the Independent Shareholders on the Open Offer with the absence of excess application arrangement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation
"Independent Financial Adviser" or "Opus Capital"	Opus Capital Limited, a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation
"Independent Shareholder(s)"	Shareholders other than the Underwriter, Mr. Lie, Golden Ocean and parties acting in concert with any of them and those who are involved in or interested in the Open Offer, the Underwriting Agreement and/or the Whitewash Waiver and/or the Loan Capitalisation and those who are required by the GEM Listing Rules and/or Takeovers Code to abstain from voting in respect of the resolutions relating to the Open Offer, the Underwriting Agreement, the Whitewash Waiver and the Loan Capitalisation at the EGM
"Independent Third Party(ies)"	any person(s) or company(ies) and their respective ultimate beneficial owner(s), to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, who are third party(ies) independent of and not connected with the Directors, chief executive and substantial Shareholders of the Company or any of its subsidiaries, or any of their respective associates

"Irrevocable Undertakings"	the irrevocable undertakings from the Underwriter, Mr. Lie and Golden Ocean as described in the paragraph headed "Irrevocable Undertakings" under the section headed "UNDERWRITING AGREEMENT" in this circular
"Last Trading Day"	Friday, 19 June 2015, being the last trading day for the Shares immediately prior to the date of the Announcement
"Latest Practicable Date"	22 September 2015, being the latest practicable date for ascertaining certain information for inclusion in this circular
"Latest Time for Acceptance"	4:00 p.m. on Wednesday, 11 November 2015 or such later time or date as may be agreed between the Underwriter and the Company, being the latest time for acceptance of, and payment for, the Offer Shares as described in the Prospectus
"Latest Time for Termination	4:00 p.m. on the third business day after the Latest Time for Acceptance or such later time or date as maybe agreed between the Underwriter and the Company, being the latest time to terminate the Underwriting Agreement
"Loan"	loan of HK$100 million to the Company made pursuant to the Loan Agreement
"Loan Agreement"	the loan agreement dated 11 May 2015 entered into between the Company and Mr. Lie relating to provision of the Loan, details of which are set out in the announcement of the Company dated 11 May 2015
"Loan Capitalisation"	the capitalisation of the Loan to settle the subscription and/or underwriting obligations of Mr. Lie and his associates under the Irrevocable Undertakings and the Underwriting Agreement
"Mr. Lie"	Mr. Lie Hai Quan, the beneficial owner and the sole director of (i) the Underwriter; and (ii) Golden Ocean
"Offer Share(s)"	not less than 3,176,281,448 new Shares and not more than 3,293,281,448 new Shares proposed to be issued and allotted under the Open Offer

"Open Offer"	the proposed issue for subscription at the Subscription Price to be made by the Company to the Qualifying Shareholders in the proportion of one Offer Share for every two Shares held on the Record Date on the terms and subject to the conditions set out in the Underwriting Agreement and the Prospectus Documents
"Overseas Shareholder(s)"	Shareholders with registered addresses (as shown in the register of members of the Company on the Record Date) which are outside Hong Kong
"PRC" or "China"	the People's Republic of China, for the purpose of this circular, excluding the Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
"Prospectus"	the prospectus in connection with the Open Offer (in such agreed form as the Company and the Underwriter may agree) to be despatched to the Shareholders on the Prospectus Posting Date
"Prospectus Documents"	the Prospectus and the application form in respect of the assured allotment of Offer Shares
"Prospectus Posting Date"	Wednesday, 28 October 2015 or such later date as may be agreed between the Underwriter and the Company for the despatch of the Prospectus Documents
"Qualifying Shareholders"	the Shareholders, other than the Excluded Shareholders, whose names appear on the register of members of the Company as at the close of business on the Record Date
"Record Date"	Tuesday, 27 October 2015 or such other date as may be agreed between the Company and the Underwriter for the determination of the entitlements under the Open Offer
"Registrar"	Tricor Tengis Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, the Company's branch share registrar and transfer office in Hong Kong
"Relevant Period"	the period beginning six months immediately prior to the date of the publication of the Announcement and ending on the Latest Practicable Date

"Settlement Date"	the date being the third business day following (but excluding) the Latest Time for Acceptance or such later date as the Company and the Underwriter may agree
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Share Option(s)"	the share option(s) granted under the Share Option Schemes
"Share Option Scheme(s)"	the share option scheme current in force adopted by the Company on 19 December 2012 and the share option scheme adopted by the Company on 22 July 2002 which was expired on 21 July 2012
"Specified Event"	an event occurring or matter arising on or after the date hereof and prior to the Latest Time for Termination which if it had occurred or arisen before the date hereof would have rendered any of the warranties contained in the Underwriting Agreement untrue or incorrect in any material respect
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Price"	the issue price of HK$0.38 per Offer Share
"subsidiary"	has the same meaning ascribed thereto in section 2 of the Companies Ordinance and "subsidiaries" shall be construed accordingly
"Takeovers Code"	the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong
"Underwriter"	Winner Mind Investments Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly and beneficially owned by Mr. Lie
"Underwriting Agreement"	the underwriting agreement dated 11 August 2015 (as supplemented by the supplemental agreements dated 11 and 22 September 2015) entered into between the Company, the Underwriter and Mr. Lie in relation to the Open Offer

"Underwriting Commission Arrangement"	the payment of the underwriting commission to the Underwriter pursuant to the Underwriting Agreement
"Underwritten Shares"	not less than 2,364,561,448 Offer Shares and not more than 2,481,561,448 Offer Shares under the Open Offer which are fully underwritten by the Underwriter
"Untaken Shares"	those (if any) of the Underwritten Shares for which Complying Applications have not been lodged for acceptance, or received, as the case may be, on or before the Latest Time for Acceptance
"Whitewash Waiver"	a waiver applied by the Underwriter to the Executive pursuant to Note 1 on the dispensation from Rule 26 of the Takeovers Code from the obligation of the Underwriter, Mr. Lie, Golden Ocean and parties acting in concert with any of them to make a mandatory general offer for all the issued Shares not already owned and/or agreed to be acquired by the Underwriter, Mr. Lie, Golden Ocean and parties acting in concert with any of them which may otherwise arise as a result of the subscription of the Underwritten Shares by the Underwriter pursuant to the Underwriting Agreement
"Winding-up Petition"	a winding-up petition received by the Company on 15 October 2014 and presented by Beyond Net Service Limited at the Court of First Instance of the High Court of Hong Kong against the Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	the United States dollars, the lawful currency of the United States of America
"sq.m."	square metre
"%" or "per cent"	percentage

* *The English translations of the Chinese names or words in this circular, where indicated, are included for identification purpose only, and should not be regarded as the official English translation of such Chinese names or words*

The expected timetable for the Open Offer and the Increase in Authorised Share Capital is set out below:

	2015
Despatch date of this circular with notice and proxy form of the EGM	Friday, 25 September
Latest time for lodging transfer of Shares in order to be qualified for attendance and voting at the EGM	4:30 p.m. on Friday, 9 October
Register of members of the Company closed (both dates inclusive)	Monday, 12 October to Thursday, 15 October
Latest time for lodging proxy form for EGM	11:00 a.m. on Tuesday, 13 October
Record date for attendance and voting at the EGM	Thursday, 15 October
Expected date and time of the EGM	11:00 a.m. on Thursday, 15 October
Announcement on results of the EGM	Thursday, 15 October
Effective date of the increase in authorised share capital of the Company	Friday, 16 October
Last day of dealings in Shares on a cum-entitlement basis	Friday, 16 October
First day of dealings in Shares on an ex-entitlement basis	Monday, 19 October
Latest time for lodging transfer of Shares in order to be qualified for the Open Offer	4:30 p.m. on Tuesday, 20 October
Register of members of the Company closed (both dates inclusive)	Thursday, 22 October to Tuesday, 27 October
Record date for the Open Offer	Tuesday, 27 October
Register of members of the Company re-opens	Wednesday, 28 October
Despatch of the Prospectus Documents (in case of the Excluded Shareholders, the Prospectus only)	Wednesday, 28 October

	2015
Latest Time for Acceptance of, and payment for Offer Shares	4:00 p.m. on Wednesday, 11 November
Latest time for the Open Offer to become unconditional	4:00 p.m. on Monday, 16 November
Announcement of results of acceptance of the Offer Shares	Wednesday, 18 November
Despatch of share certificates for Offer Shares and refund of cheques, if the Open Offer does not become unconditional	Thursday, 19 November
Dealings in Offer Shares commence	9:00 a.m. on Friday, 20 November

Note: All times and dates stated in this circular refer to Hong Kong local times and dates. Dates or deadlines specified in the expected timetable above are indicative only and may be extended or varied by the Company. Any changes to the expected timetable will be published or notified to Shareholders as and when appropriate.

EFFECT OF BAD WEATHER ON THE LATEST TIME FOR ACCEPTANCE OF AND PAYMENT FOR OFFER SHARES

The Latest Time for Acceptance of and payment for Offer Shares will not take place if there is:

(a) a tropical cyclone warning signal number 8 or above, or

(b) a "black" rainstorm warning

(i) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on Wednesday, 11 November 2015. Instead the latest time of acceptance of and payment for the Offer Shares will be extended to 5:00 p.m. on the same business day;

(ii) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Wednesday, 11 November 2015. Instead the Latest Time of Acceptance of and payment for the Offer Shares will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m.

If the Latest Time for Acceptance of and payment for the Offer Shares does not take place on Wednesday, 11 November 2015, the dates mentioned in the section headed "Expected timetable" may be affected. An announcement will be made by the Company in such event as soon as practicable.

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)

Executive Directors:
Mr. CHEUNG Sing Tai
Mr. ZHANG Xinyu
Mr. LIAN Xin
Mr. XU Gang

Independent non-executive Directors
Mr. LEUNG Ka Wo
Mr. CHOU Jianzhong
Ms. XI Lina
Mr. HUANG Zhixiong

Registered Office
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong
Unit 1504, Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

25 September 2015

To the Shareholders

Dear Sir or Madam,

**(1) PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) CONNECTED TRANSACTION IN RELATION TO THE UNDERWRITING ARRANGEMENT;
(4) CONNECTED TRANSACTION IN RELATION TO THE LOAN CAPITALISATION;
(5) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
AND
(6) NOTICE OF EXTRAORDINARY GENERAL MEETING**

INTRODUCTION

Reference is made to the announcements of the Company dated 11, 14, 31 August and 11 and 22 September 2015 in relation to, among other things, the Open Offer, the Whitewash Waiver, the Underwriting Commission Arrangement, the Loan Capitalisation and the Increase in Authorised Share Capital.

The purpose of this circular is to provide you with further information regarding, among other things, (i) the Open Offer, the Whitewash Waiver, the Underwriting Commission Arrangement, the Loan Capitalisation and the Increase in Authorised Share Capital; (ii) the recommendation of the Independent Board Committee to the Independent Shareholders as regards the Open Offer with the absence of excess application arrangement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation; (iii) the advice from Opus Capital to the Independent Board Committee and Independent Shareholders in respect of the Open Offer with the absence of excess application arrangement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation; (iv) the financial information and other general information of the Group; (v) and the notice of the EGM.

PROPOSED OPEN OFFER

The Board proposes to raise not less than approximately HK$1,206.99 million before expenses and not more than approximately HK$1,251.45 million before expenses, by issuing not less than 3,176,281,448 Offer Shares and not more than 3,293,281,448 Offer Shares to the Qualifying Shareholders by way of an Open Offer at the Subscription Price of HK$0.38 per Offer Share on the basis of one (1) Offer Share for every two (2) Shares held on the Record Date and payable in full on acceptance.

Issue statistics

Basis of the Open Offer	:	One (1) Offer Share for every two (2) Shares held on the Record Date
Subscription Price	:	HK$0.38 per Share
Number of Shares in issue as at the Latest Practicable Date	:	6,352,562,897 Shares
Number of Offer Shares	:	not less than 3,176,281,448 Offer Shares and not more than 3,293,281,448 Offer Shares
Nominal value of Offer Shares	:	HK$0.10 each
Aggregate nominal value of Offer Shares	:	not less than HK$317,628,144.80 and not more than HK$329,328,144.80

Number of Offer Shares undertaken to be taken up by the Underwriter and parties acting in concert with it	:	Pursuant to the Underwriting Agreement, each of the Underwriter, Mr. Lie and Golden Ocean has irrevocably undertaken to the Company, among other things, that (i) it will not, within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of any Shares held by it, and (ii) subject to the fulfillment (or waiver) of the conditions of the Open Offer and the Underwriting Agreement not having been terminated in accordance with its terms, it will take up its entitlements under the Open Offer, being an aggregate of 811,720,000 Offer Shares.
Number of Offer Shares underwritten by the Underwriter	:	All of the Offer Shares (other than the Offer Shares undertaken to be taken up by the Underwriter under the Irrevocable Undertakings), being not less than 2,364,561,448 new Shares and not more than 2,481,561,448 new Shares
Number of Shares in issue immediately upon completion of the Open Offer	:	not less than 9,528,844,345 Shares and not more than 9,879,844,345 Shares

As at the Latest Practicable Date, the Company has outstanding Share Options entitling holders to subscribe for 106,000,000 Shares and outstanding Convertible Notes which are convertible into 128,000,000 Shares. Save as the aforesaid, the Company has no other outstanding derivatives, warrants, options and conversion rights or other similar rights which are convertible or exchangeable into Shares.

Assuming no exercise of any Convertible Notes and Share Options on or before the Record Date, the minimum total number of Offer Shares of 3,176,281,448 Shares represents:

(i) 50% of the Company's existing issued share capital as at the Latest Practicable Date; and

(ii) approximately 33.33% of the Company's issued share capital as enlarged by the issue of the Offer Shares.

Assuming exercise of all Convertible Notes and Share Options in full on or before the Record Date, the maximum total number of Offer Shares of 3,293,281,448 Shares represents:

(i) approximately 51.90% of the Company's existing issued share capital as at the Latest Practicable Date; and

(ii) approximately 33.33% of the Company's issued share capital as enlarged by the issue of the Offer Shares.

Qualifying Shareholders

To qualify for the Open Offer, Shareholders must be registered on the register of members of the Company at the close of business on the Record Date. Shareholders having an address in Hong Kong on the register of members of the Company at the close of business on the Record Date are qualified for the Open Offer. Shareholders having an address outside Hong Kong on the register of members of the Company at the close of business on the Record Date are qualified for the Open Offer, only if the Board, after making relevant enquiry regarding the legal restrictions under the laws of the relevant place or the requirement of the relevant regulatory body or stock exchange in that place pursuant to the GEM Listing Rules, considers that it would not be necessary or expedient to exclude these Shareholders from participating in the Open Offer.

To qualify for the Open Offer, all transfers of Shares must be lodged for registration with the Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:30 p.m. on Tuesday, 20 October 2015.

The register of members of the Company will be closed from Thursday, 22 October 2015 to Tuesday, 27 October 2015, both dates inclusive, to determine the eligibility of the Open Offer. No transfer of Shares will be registered during this period.

The Open Offer is only available to the Qualifying Shareholders. The Company will send the Prospectus Documents to the Qualifying Shareholders, if the Independent Shareholders approve the Open Offer, the Underwriting Agreement and the Whitewash Waiver.

The invitation to subscribe for the Offer Shares to be made to the Qualifying Shareholders will not be transferable.

Rights of Overseas Shareholders

If, at the close of business on the Record Date, any Shareholder's address on the register of members of the Company is in a place outside Hong Kong, that Shareholder may not be eligible to take part in the Open Offer as the Prospectus Documents will not be registered and/or filed under the applicable securities legislation of any jurisdictions other than Hong Kong and, where applicable, the Cayman Islands. The Board would make relevant enquiry regarding the legal restrictions under the laws of the relevant place or the requirement of the relevant regulatory body or stock exchange in that place. If, pursuant to Rule 17.41 of the GEM Listing Rules, the Board considers that it would be necessary or expedient to exclude these Overseas Shareholders from participating in the Open Offer, such Overseas Shareholders will not be invited to participate in the Open Offer. The Offer Shares to which such Overseas Shareholders would otherwise have been entitled to under the Open Offer will be underwritten by the Underwriter. The Company will disclose the results of the relevant enquiries and whether the Overseas Shareholders would be excluded with basis in the Prospectus.

The Company will send copies of the Prospectus to the Excluded Shareholders for their information only. As long as an Excluded Shareholder is an Independent Shareholder, such Shareholder will be entitled to vote on all resolutions at the EGM.

Subscription Price

The Subscription Price is HK$0.38 per Offer Share, payable in full upon application.

The Subscription Price represents:

(a) a discount of approximately 77.51% to the closing price of HK$1.69 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 69.67% to the theoretical ex-entitlement price of HK$1.253 per Share as adjusted for the effects of the Open Offer, based on the closing price of HK$1.69 per Share as quoted on the Stock Exchange on the Last Trading Day;

(c) a discount of approximately 78.89% to the average of the closing prices of approximately HK$1.80 per Share for the last five consecutive trading days including and up to the Last Trading Day;

(d) a discount of approximately 45.71% to the closing price of HK$0.70 per Share as quoted on Stock Exchange on the Latest Practicable Date; and

(e) a discount of approximately 35.92% to the theoretical ex-entitlement price of approximately HK$0.593 per Share as adjusted for the effects of the Open Offer, based on the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the financial position of the Group with audited net liabilities as at 31 December 2014, the then prevailing market price of the Shares with increases since early May 2015 and the then market environment remain relatively uncertain and the trading liquidity of the Shares under the relatively uncertain market sentiments in the equity market. The Directors consider that each Qualifying Shareholder is entitled to subscribe for the Offer Shares at the same Subscription Price in proportion to his/her/its existing shareholding in the Company held on the Record Date and the terms of the Open Offer, including the Subscription Price which has been set as a discount to the recent closing prices of the Shares with an objective of encouraging existing Shareholders to take up their entitlements so as to share in the potential growth of the Company. The Directors considered that the Subscription Price to be fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Having considered that the Open Offer would provide the required funds to the Group for future development and operation as detailed under the paragraph headed "Reasons for the Open Offer and use of proceeds" in this Letter from the Board, enhance its existing operation and strengthen the capital base of the Group; the Open Offer was determined on the basis that all Qualifying Shareholders have been offered the same opportunity to maintain their proportional interests in the Company and allows the Qualifying Shareholders to participate in the growth of the Company, the Directors consider that the proposed discount of the Subscription Price to the market prices to be fair and reasonable.

Status of the Offer Shares

The Offer Shares (when allotted, fully paid and issued) will rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Offer Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions, which are declared, made or paid on or after the date of allotment and issue of the Offer Shares.

Certificates of the Offer Shares

Subject to the Open Offer becoming unconditional, share certificates in respect of the Offer Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Thursday, 19 November 2015 or such later date as the Board may determine.

No application for excess Offer Shares

Considering that the Open Offer will give the Qualifying Shareholders an equal and fair opportunity to maintain their respective pro rata shareholding interests in the Company, if application for excess Offer Shares is arranged, the Company will be required to put in additional effort and costs to administer the excess application procedures. Accordingly, after arm's length negotiation with the Underwriter, the Board has decided that no excess Offer Shares will be offered to the Qualifying Shareholders and any Untaken Shares will be underwritten by the Underwriter.

Fractional entitlements

Fractions of Offer Shares will not be allotted to Qualifying Shareholders and fractional entitlements will be rounded down to the nearest whole number of Offer Shares. Any Offer Shares created from the aggregation of fractions of Offer Shares will be aggregated and taken up by the Underwriter.

Application for listing

The Company will apply to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares.

UNDERWRITING ARRANGEMENT

Irrevocable Undertakings

Pursuant to the Underwriting Agreement, each of the Underwriter, Mr. Lie and Golden Ocean has irrevocably undertaken to the Company, among other things, that (i) it will not, within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of any Shares held by it, and (ii) subject to the fulfillment of the conditions of the Open Offer and the Underwriting Agreement not having been terminated in accordance with its terms, it will take up its entitlements under the Open Offer.

Save for the Irrevocable Undertakings as disclosed above, the Board has not received any information or irrevocable undertakings from any substantial Shareholders of their intention to take up the securities of the Company to be offered to them under the Open Offer.

Underwriting Agreement

Date	:	11 August 2015 (as supplemented on 11 and 22 September 2015)
Underwriter	:	Winner Mind Investments Limited, which is incorporated under the laws of the British Virgin Islands and is wholly and beneficially owned by Mr. Lie. It is principally engaged in investment holding and its ordinary course of business does not include underwriting.
Number of Offer Shares underwritten	:	All the Offer Shares (other than the Offer Shares undertaken to be taken up by the Underwriter under the Irrevocable Undertakings), being not less than 2,364,561,448 new Shares and not more than 2,481,561,448 new Shares. Accordingly, the Open Offer is fully underwritten.

As at the Latest Practicable Date, the Underwriter, Mr. Lie and parties acting in concert with any of them are interested in an aggregate of 1,623,440,000 Shares, representing approximately 25.55% in the issued share capital of the Company.

An underwriting commission of 1.50% of the aggregate Subscription Price in respect of all the Offer Shares under the Underwriter's underwriting obligations pursuant to the Underwriting Agreement (excluding the 811,720,000 Offer Shares which will constitute the provisional entitlement of Offer Shares in respect of the Shares legally and beneficially owned by the Underwriter, Mr. Lie and parties acting in concert with any of them), being an amount of ranging from approximately HK$13.48 million to approximately HK$14.14 million, will be payable to the Underwriter. The Company will reimburse the Underwriter for the reasonable out-of-pocket expenses of the Underwriter in respect of the Open Offer pursuant to the Underwriting Agreement. The Directors (including the independent non-executive Directors after taking into consideration of the advice of Opus Capital) consider that the amount and the basis of the underwriting commission are fair and reasonable and the commission rate is comparable to the prevailing market rate.

Supplemental agreements to the Underwriting Agreement

Reference is made to the announcements of the Company dated 11 and 22 September 2015.

On 11 September 2015, the Company issued a total of 196,721,311 new consideration Shares in accordance with an acquisition agreement dated 14 August 2015 entered into by a subsidiary of the Company. As a result of such issue, the issued shares of the Company were increased by 196,721,311 Shares to 6,352,562,897 Shares. On 11 September 2015, the Company, the Underwriter and Mr. Lie entered into the supplemental agreement to the Underwriting Agreement to accommodate the increase in the issued share capital of the Company as a result of the issue of the above 196,721,311 new consideration Shares. On 22 September 2015, the Company, the Underwriter and Mr. Lie entered into a second supplemental agreement to, among others, revise the timetable for the Open Offer.

Conditions of the Open Offer

The Open Offer is conditional on the fulfillment or waiver (as the case may be) of the following conditions:

(1) the passing by the Independent Shareholders at the relevant EGM by way of poll of all necessary resolutions to approve the Underwriting Agreement and the transactions contemplated thereunder (including the Underwriting Commission Arrangement and the Loan Capitalisation) and the Whitewash Waiver as required by the GEM Listing Rules and/or the Takeovers Code as appropriate by no later than the Prospectus Posting Date;

(2) the Executive granting the Whitewash Waiver to the Underwriter and parties acting in concert with it and the satisfaction of all conditions (if any) attached to the Whitewash Waiver;

(3) the delivery to the Stock Exchange for authorisation and the registration with the Registrar of Companies in Hong Kong respectively the Prospectus Documents not later than the Prospectus Posting Date;

(4) the posting of the Prospectus Documents to the Qualifying Shareholders no later than the Prospectus Posting Date;

(5) the GEM Listing Committee of the Stock Exchange granting or agreeing to grant (subject to allotment) and not having withdrawn or revoked listing of and permission to deal in the Offer Shares either unconditionally or subject to such conditions as the Company may accept by no later than the first day of dealing of the Offer Shares;

(6) the successful application for a Court Order in respect of the Open Offer or the dismissal by the Court of the Winding-up Petition, whichever is earlier;

(7) compliance with and performance of all the undertakings and obligations of the Underwriter, Mr. Lie and Golden Ocean under the Irrevocable Undertakings; and

(8) compliance with and performance of all the undertakings and obligations of the Company under the Underwriting Agreement and the representations and warranties given by the Company under the Underwriting Agreement remaining true, correct and not misleading in all material respects.

The above conditions precedent are incapable of being waived (other than condition (8) which can be waived by the Underwriter). If the conditions precedent are not satisfied in whole (or waived where applicable) by the Latest Time for Termination or such other date as the Company and the Underwriter may agree in writing, the Underwriting Agreement may be terminated by the Underwriter by written notice to the Company, in which case the Underwriting Agreement should be terminated and no party shall have any claim against any other party for costs, damages, compensation or otherwise save for any antecedent breaches.

Regarding condition (6) as stated above, as mentioned in the first quarterly report of the Company for the three months ended 31 March 2015, the Company had received the Winding-up Petition and the Company has instructed its legal advisers to take legal actions against the petitioner. The Company's bank movements are subject to restrictions as a result of the winding-up petition and the hearing for the Company's appeal of the decision relating to the dismissal of the winding-up petition has been scheduled in early October 2015. The Company has made the application for the appropriate Court Order for the purpose of enabling use of the proceeds raised from the Open Offer by the Group and the first hearing of the application was scheduled in mid October 2015. Pursuant to the Underwriting Agreement, the Underwriter shall have the right to conduct due diligence on the Group.

As at the Latest Practicable Date, none of the above conditions has been fulfilled or waived.

Termination of the Underwriting Agreement

If, prior to the Latest Time for Termination:

(1) in the reasonable opinion of the Underwriter, the success of the Open Offer would be materially and adversely affected by:

   (a) the introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or is materially adverse in the context of the Open Offer; or

   (b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date hereof) of a political, military, financial, economic or other nature (whether or not such event or change is of the same kind with any of the foregoing), or in the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities markets which may, in the reasonable opinion of the Underwriter materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or materially and adversely prejudice the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(2) any material adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the reasonable opinion of the Underwriter is likely to materially or adversely affect the success of the Open Offer or otherwise makes it inexpedient or inadvisable to proceed with the Open Offer; or

(3) there is any material adverse change in the circumstances of the Company or any member of the Group which in the reasonable opinion of the Underwriter will adversely affect the prospects of the Company, including without limiting the generality of the foregoing the presentation of a petition or the passing of a resolution for the liquidation or winding up or similar event occurring in respect of any of member of the Group or the destruction of any material asset of the Group; or

(4) any event of force majeure including, without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; or

(5) any other material adverse change in relation to the business or the financial or trading position or prospects of the Group as a whole whether or not such material adverse change is of the same kind with any of the foregoing; or

(6) any moratorium, suspension or material restriction on trading of the Shares on the Stock Exchange due to exceptional financial circumstances or otherwise,

the Underwriter shall be entitled by notice in writing to the Company, served prior to the Latest Time for Termination, to terminate the Underwriting Agreement.

The Underwriter shall be entitled by notice in writing to terminate the Underwriting Agreement if prior to the Latest Time for Termination:

(1) any material breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement comes to the knowledge of the Underwriter; or

(2) any specified event comes to the knowledge of the Underwriter, and such breach or specified event will have a material adverse effect in the context of the Open Offer.

Any such notice shall be served by the Underwriter prior to the Latest Time for Termination.

Loan Capitalisation

Reference is made to the announcement of the Company dated 11 May 2015 in relation to the provision of the Loan to the Company. Pursuant to the Loan Agreement, Mr. Lie has advanced an unsecured loan of HK$100 million to the Company. As at the date of the Underwriting Agreement, the Company was indebted to Mr. Lie the Loan in the principal sum of HK$100 million together with interest accrued thereon. As at 31 July 2015, the interest accrued on the Loan amounted to approximately HK$0.50 million.

Pursuant to the Underwriting Agreement, Mr. Lie and the Company have agreed that the aggregate Subscription Price required to be paid by Mr. Lie and his associates under their subscription and/or underwriting obligation of the Irrevocable Undertakings and the Underwriting Agreement will be deemed to be paid by way of the full capitalisation of the Loan of HK$100 million in first place and the remaining balance of the Subscription Price (if any) will be settled in cash.

The completion of the Loan Capitalisation is subject to the same conditions of the Open Offer. Completion of the Loan Capitalisation shall take place simultaneously with the issue of the Offer Shares by the Company pursuant to the terms of the Open Offer.

The Directors consider that the Loan Capitalisation will enable the Group to repay the Loan without cash outflow and will allow the Group to reduce its gearing level. The Directors accordingly consider that the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole. As Mr. Lie is a substantial Shareholder, the Loan Capitalisation constitutes a connected transaction for the Company under the GEM Listing Rules and requires the approval of the Independent Shareholders.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Company is principally engaged in investment holding and the principal activities of its operating subsidiaries are the sale and distribution of telecommunication products, provision of cable and wireless broadband services, value-added telecommunication services and transmedia advertising service, the operation of peer to peer (P2P) lending platform and cross-border e-commerce businesses.

Taking into consideration of (i) the financial position of the Group; (ii) investment plan of the Group; and (iii) prevailing financial market conditions, the Board believes that it is beneficial for the Group to raise long-term equity funding via the proposed Open Offer to strengthen the Company's capital base and to enhance its financial position. The Board has considered other alternative fund raising methods such as issue of new shares and bank borrowings. Having considered that debt financing would increase interest expenses and the gearing level of the Group and impose additional financial burden to the Group's future cash flows, the Board considers that such fund raising method is currently not the most appropriate method to the Group. The Directors consider that it is prudent to finance the expansion of the Group's business by equity financing as it will not increase the Group's finance costs and yet will provide the Group with the necessary financial resources. The Directors consider that the Open Offer will provide an equal opportunity to all Qualifying Shareholders to maintain their respective shareholdings in the Company and participate in the growth and development of the Company and it would not incur additional costs in respect of the trading of nil-paid rights under rights issue, is more cost effective and in the interests of the Company and the Shareholders as a whole.

Upon the full subscription of the Offer Shares and assuming no further Shares will be allotted and issued from the date hereof to the Record Date, after taking into account the Loan Capitalisation, the Company will receive gross proceeds of not less than approximately HK$1,106.99 million (assuming no exercise of any Convertible Notes and Share Options on or before the Record Date) and not more than approximately HK$1,151.45 million (assuming exercise of all Convertible Notes and Share Options in full on or before the Record Date). The net proceeds under the Open Offer are expected to amount to not less than approximately HK$1,090.82 million and not more than approximately HK$1,134.62 million (after deducting the costs and expenses in relation to the Open Offer). The net proceeds per Offer Share is equivalent to approximately HK$0.34. It is the present intention of the Company not to conduct or consider any fund raising activity in the next 12 months from the date of the Announcement.

The Board intends to apply the net proceeds from the Open Offer of (i) approximately HK$125.00 million for development of the cloud computing business and building cloud computing platform for supporting the information systems integration of governmental bodies and large enterprises; (ii) approximately HK$300.00 million for setting up the Internet Data Centre in the PRC with internet data centre standard cabinets and gross floor area of approximately 40,000 sq.m. for provision of, among others, value added services including data distribution and analysis and cloud related services; (iii) approximately HK$99.50 million for carrying out the business in provision of WiFi services and setting up access point Wifi network in Guangdong province of the PRC; (iv) approximately HK$168.00 million for carrying out the cross-border e-commerce business and setting up cross border electronic business platform for supporting various kinds of products, including logistics, online to offline experience stores, and setting up B bonded logistics zone; (v) approximately HK$107.50 million for carrying out logistics related business as referred to in the announcement of the Company dated 15 June 2015; (vi) approximately HK$50.00 million for carrying out peer to peer (P2P) lending platform business, including setting up third party payment companies and establishment of personal credit information platform; and (vii) approximately HK$240.82 million (assuming no exercise of any Convertible Notes and Share Options on or before the Record Date) to approximately HK$284.62 million (assuming exercise of all Convertible Notes and Share Options in full on or before the Record Date) for general working capital of the Group and possible investments when investments opportunities arise.

(i) Cloud computing (Inspur Group) – HK$125 million

On or around 24 April 2015, 廣東蔚海科技發展有限公司 (Guangdong Bluesea Technology Development Company Limited*) ("**Guangdong Bluesea Technology**"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Inspur Cloud Computing Industry Investment Company Limited ("**Inspur Cloud Computing**"), pursuant to which both parties agreed to set up 廣東浪潮蔚海雲計算有限公司 (Guangdong Inspur Weihai Cloud Computing Company Limited*) ("**Inspur Weihai**"), which is owned as to 60% by Inspur Cloud Computing and 40% by Guangdong Bluesea Technology and engages in the business of cloud computing and e-commerce.

As disclosed in the announcement of the Company dated 30 June 2015, 廣東蔚海移動發展有限公司 (Guangdong Bluesea Mobile Development Company Limited*) (formerly 廣東蔚海校園移動網絡有限公司 (Guangdong Wei Hai Mobile Network Company Limited*) ("**Guangdong Bluesea**"), a wholly-owned subsidiary of the Company, entered into a letter of intent in respect of Zhuxishugu Taishan Cloud Resource Centre with Taishan Municipal People's Government, to jointly develop Taishan Cloud Resource Center of Big Data Industrial Base in Jiangmen City (the "**Project**"). It is expected that Inspur Weihai will be responsible for developing the Project.

It is estimated that additional capital contribution to Inspur Weihai of approximately RMB250.00 million (equivalent to approximately HK$312.50 million) is required to fund the Project and the amount shall be contributed as to 40% by Guangdong Bluesea (representing approximately HK$125.00 million) and as to 60% by Inspur Cloud Computing (representing approximately HK$187.50 million).

The Project is divided into the following 4 sub-projects and it is estimated that the proceeds of approximately HK$125.00 million to be provided by the Group and applied to the Project in the following manner:

(a) Jiangmen Municipal Government Data Centre Project

It is intended that approximately HK$50.00 million will be applied for construction and infrastructure during the end of 2015 to 2016; and approximately HK$25.00 million for construction of server cabinets and cloud platform during July 2016 to December 2016.

(b) Jiangmen Yi Netcom Small Enterprise Cloud Platform Project

It is intended that approximately HK$15 million will be applied for construction of system of small enterprise cloud platform and system of big data analysis during the end of 2015 to 2016; and approximately HK$10.00 million for funding for operations in or around the end of 2015.

(c) Jiangmen Binjiang Big Data Innovation Centre Project

It is intended that approximately HK$12.50 million will be applied for construction of exhibition hall of the Innovation Centre and construction of data cloud system in or around the end of 2015; and approximately HK$2.50 million for construction of supporting data centre in or around early 2016.

(d) Jiangmen Binjiang Jiangsha Intelligent Industrial Park Project

It is intended that approximately HK$10.00 million will be applied for construction of service cloud platform during the period from the end of 2015 to 2016.

(ii) Internet data centre in Panyu – HK$300 million

As disclosed in the announcement of the Company dated 19 June 2015 in relation to an equity transfer memorandum of understanding entered into between the Company's subsidiary (the "**Subsidiary**") and Independent Third Parties (the "**Vendors**"), pursuant to which the Subsidiary shall pay a deposit to the Vendors for a proposed acquisition of a group of companies that are engaged in the manufacture and sale of electronic products (the "**Target Group**"). Such deposit was also applied to the Subsidiary's perpetual right for free use of property located in Panyu, Guangdong Province, the PRC (the "**Property**") that is owned by the Target Group. The

Company intends to use the Property for the internet data centre to be operated by Guangdong Bluesea, which is in line with the business prospects of Guangdong Bluesea as disclosed in the announcement of the Company dated 30 January 2015.

It is intended that approximately HK$300.00 million will be applied for set up of the internet data centre and used as to approximately HK$100.00 million for installation of 1,000 server cabinets in or around the 4th quarter of 2015; and approximately HK$200.00 million for installation of 2,000 server cabinets in 2016.

(iii) Mobile WiFi – HK$99.5 million

Guangdong Bluesea intended to expand its principal activity of provision of WiFi services in South China and set up its "bluesea-free WiFi" network with coverage of 21 municipalities in Guangdong Province, the PRC. In addition, Guangdong Bluesea has planned to construct its own high-speed wireless network in 3 universities in Guangdong Province, the PRC, namely Guangdong University of Technology, South China University of Technology and Jinan University, to provide WiFi services to their approximate 150,000 students.

It is intended that approximately HK$99.50 million will be applied for construction of the above networks and used as to approximately HK$50.00 million for the cost of 40,000 access points for the coverage of 21 municipalities in Guangdong Province, the PRC in or around the 4th quarter of 2015; and approximately HK$49.50 million for the cost of 3,000 hotspots at each of the above-mentioned universities in or around the 4th quarter of 2015.

(iv) Cross-border e-commerce – HK$168 million

As mentioned in the announcement of the Company dated 29 April 2015, Guangdong Bluesea entered into a strategic cooperation framework agreement with China Postal Express & Logistics Co., Ltd., Guangdong Branch on 29 April 2015, pursuant to which both parties will operate a cross-border e-commerce integrated zone basing on the existing properties of at least 180,000 square metres in Foshan International Furniture Expo Mall in Foshan, Guangdong Province. Facilities of the integrated zone include a Type B customs warehouse and an Online to Offline (O2O) experience store.

It is intended that approximately HK$143.00 million will be applied for setup cost of the cross-border e-commerce integrated zone, including construction of a Type B customs warehouse; approximately HK$10.00 million for the cost of construction of website, www.bluesea-gou.com, including servers, storage devices and the relevant maintenance; and approximately HK$15 million for setup cost of O2O experience store, with gross floor area of 10,000 sq.m..

(v) Logistics-related business – HK$107.5 million

In June 2015, Guangdong Bluesea acquired from Shandong Sanxing Group Co., Ltd. 43% of the entire equity interest in CNCC Logistics Equipment Co., Ltd. ("**CNCC**"). CNCC is principally engaged in the design, manufacture and sale of logistics equipment, such as containers, road transportation vehicles and emergency rescue equipment, and the provision of relevant technical advisory services.

To develop the business of CNCC, additional funding of RMB200 million (equivalent to approximately HK$250 million) from the joint venture parties of CNCC is required and HK$107.50 million (representing 43%) of which will be contributed by the Group.

It is intended that approximately HK$80.63 million will be applied for the investment in 50 skid mounted liquefied natural gas (LNG) filling stations and related business; approximately HK$16.12 million for cost of construction of manufacturing plants in Jinan, Shandong Province, and in Northwest China; and approximately HK$10.75 million for the research and development and general working capital of CNCC.

(vi) Peer-to-peer (P2P) lending platform – HK$50 million

On 9 May 2015, Guangdong Avatar Wealth Investment Management Co., Ltd ("**Avatar**"), a 70% subsidiary of Guangdong Bluesea, officially commenced its peer to peer (P2P) lending platform business. To develop the P2P lending platform business, the Company has planned to provide funding of HK$50 million to Avatar.

It is intended that HK$50 million will be applied to establish third-party payment company, develop personal credit information platform, set up integrated service shops in the Pearl River Delta and increase marketing to aim for 100,000 online registered users.

In view of the above, the Directors (excluding the independent non-executive Directors who will give their view after taking into consideration of the advice of the Independent Financial Adviser) consider that the Open Offer is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

EFFECT ON SHAREHOLDING STRUCTURE

For illustration purpose only, the shareholding structure of the Company as at the Latest Practicable Date and immediately after the completion of the Open Offer is set out below:

(i) assuming no exercise of the outstanding Share Options and Convertible Notes on or before the Record Date

Shareholders	**At the Latest Practicable Date**		**Immediately after completion of the Open Offer (assuming all Qualifying Shareholders have fully subscribed for their entitlements under the Open Offer)**		**Immediately after completion of the Open Offer (assuming no Qualifying Shareholders subscribed for their entitlements under the Open Offer except for the Underwriter, Mr. Lie and parties acting in concert with any of them)**	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
The Underwriter, Mr. Lie and parties acting in concert with any of them *(Note 1)*	1,623,440,000	25.55	2,435,160,000	25.55	4,799,721,448	50.37
Directors/Ex-Director						
Xu Gang *(Note 2)*	996,000	0.02	1,494,000	0.02	996,000	0.01
Huang Zhixiong *(Note 3)*	11,356,000	0.18	17,034,000	0.18	11,356,000	0.12
Ye Weiping *(Note 4)*	518,000,000	8.15	777,000,000	8.15	518,000,000	5.44
Public Shareholders	4,198,770,897	66.10	6,298,156,345	66.10	4,198,770,897	44.06
Total	6,352,562,897	100.00	9,528,844,345	100.00	9,528,844,345	100.00

(ii) Assuming the exercise of the outstanding Share Options and Convertible Notes in full on or before the Record Date

Shareholders	At the Latest Practicable Date		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders have fully subscribed for their entitlements under the Open Offer)		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders subscribed for their entitlements under the Open Offer except for the Underwriter, Mr. Lie and parties acting in concert with any of them)	
	Number of Shares	*Approximate %*	*Number of Shares*	*Approximate %*	*Number of Shares*	*Approximate %*
The Underwriter, Mr. Lie and parties acting in concert with any of them *(Note 1)*	1,623,440,000	25.55	2,435,160,000	24.65	4,916,721,448	49.77
Directors/Ex-Director						
Xu Gang *(Note 2)*	996,000	0.02	1,494,000	0.02	966,000	0.01
Huang Zhixiong *(Note 3)*	11,356,000	0.18	17,034,000	0.18	11,356,000	0.11
Ye Weiping *(Note 4)*	518,000,000	8.15	777,000,000	7.86	518,000,000	5.24
Zhang Xinyu *(Note 5)*	–	–	60,000,000	0.61	40,000,000	0.40
Public Shareholders						
Holder(s) of the Convertible Notes	–	–	192,000,000	1.94	128,000,000	1.30
Holders of Share Options	–	–	99,000,000	1.00	66,000,000	0.67
Other public Shareholders	4,198,770,897	66.10	6,298,156,345	63.74	4,198,770,897	42.50
Total	6,352,562,897	100.00	9,879,844,345	100.00	9,879,844,345	100.00

Notes:

1 420,000,000 Shares are held by the Underwriter, 23,624,000 Shares are held by Golden Ocean and 1,179,816,000 Shares are held by Mr. Lie. Both the Underwriter and Golden Ocean are wholly-owned by Mr. Lie. Thus, Mr. Lie is deemed to be interested in the Shares held by the Underwriter and Golden Ocean.

2 Mr. Xu Gang is an executive Director. The 996,000 Shares include 48,000 Shares owned by the spouse of Mr. Xu Gang.

3 Mr. Huang Zhixiong is an independent non-executive Director. The 11,356,000 Shares are owned by the spouse of Mr. Huang Zhixiong.

4 Ms. Ye Weiping was an ex-executive Director.

5 Mr. Zhang Xinyu is an executive Director.

IMPLICATIONS UNDER THE TAKEOVERS CODE AND APPLICATION FOR THE WHITEWASH WAIVER

As at the Latest Practicable Date, the Underwriter, Mr. Lie and parties acting in concert with any of them are interested in 1,623,440,000 Shares, representing approximately 25.55% in the issued share capital of the Company. Assuming that no Shareholder will take up any Offer Shares and the Underwriter has taken up all of its assured entitlement under the Open Offer and the Underwritten Shares, the aggregate shareholding of the Underwriter, Mr. Lie and parties acting in concert with any of them upon completion of the Open Offer would increase from approximately 25.55% to (i) approximately 50.37% (assuming no exercise of the outstanding Share Options and Convertible Notes on or before the Record Date) and (ii) approximately 49.77% (assuming the exercise of the outstanding Share Options and Convertible Notes in full on or before the Record Date) and would therefore give rise to a mandatory general offer obligation on the part of the Underwriter, Mr. Lie and parties acting in concert with any of them under Rule 26 of the Takeovers Code unless the Whitewash Waiver is obtained.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it will grant the Whitewash Waiver, subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, which the Underwriter, Mr. Lie and the parties acting in concert with any of them will abstain from voting on the relevant resolution(s).

Completion of the Open Offer is conditional upon, among other matters, the granting of the Whitewash Waiver by the Executive and the approval of the Independent Shareholders of the Whitewash Waiver at the EGM. If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved at the EGM, the Open Offer will not proceed.

Only the Independent Shareholders will be eligible to vote on the resolution(s) relating to the Open Offer with the absence of excess application arrangement, the Underwriting Agreement, the Whitewash Waiver and the Loan Capitalisation. Accordingly, the Underwriter, Mr. Lie, Golden Ocean and parties acting in concert with any of them will abstain from voting on such resolution(s) at the EGM.

As confirmed by the Underwriter, save for the entering into of the Underwriting Agreement and the Irrevocable Undertakings, none of the Underwriter, Mr. Lie, Golden Ocean and parties acting in concert with any of them have acquired any voting rights of the Company during the Relevant Period.

As at the Latest Practicable Date, Mr. Lie was deemed to be interested in 420,000,000 Shares held by the Underwriter and 23,624,000 Shares held by Golden Ocean by virtue of his controlling interests in the Underwriter and Golden Ocean.

In the event that the voting rights held by the Underwriter, Mr. Lie and parties acting in concert with any of them exceed 50% of the voting rights of the Company upon completion of the Open Offer as aforementioned, the Underwriter, Mr. Lie and parties acting in concert with any of them may increase their aggregate shareholding in the Company subsequent to the completion of the Open Offer without triggering any obligation under Rule 26 of the Takeovers Code to make a general offer.

As confirmed by the Underwriter, as at the Latest Practicable Date:

(i) save for 1,623,440,000 Shares owned by the Underwriter, Mr. Lie and Golden Ocean, the Underwriter, Mr. Lie and the parties acting in concert with any of them do not own, control or have direction over any voting rights or rights over the Shares or convertible securities, options, warrants or derivatives of the Company;

(ii) save for the Underwriting Agreement and the Irrevocable Undertakings, there is no arrangement (whether by way of option, indemnity or otherwise) in relation to the shares of the Underwriter or the Company which might be material to the Open Offer, the Underwriting Agreement and/or the Whitewash Wavier;

(iii) other than those set out in the paragraph headed "Conditions of the Open Offer" under the section headed "UNDERWRITING AGREEMENT" in this circular, there is no agreement or arrangement to which the Underwriter is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Open Offer;

(iv) other than the Irrevocable Undertakings, the Underwriter, Mr. Lie, Golden Ocean and parties acting in concert with any of them have not received any irrevocable commitment to vote for the Open Offer, the Underwriting Agreement and/or the Whitewash Wavier or to take up the securities of the Company to be provisionally allotted under the Open Offer;

(v) the Underwriter, Mr. Lie, Golden Ocean and parties acting in concert with any of them have not borrowed or lent any relevant securities (as defined in note 4 to Rule 22 of the Takeovers Code) in the Company; and

(vi) there was no agreement, arrangement or understanding (including any compensation arrangement) between the Underwriter, Mr. Lie, Golden Ocean and parties acting in concert with any of them and any Director, recent Director, Shareholder or recent Shareholder which had any connection with or dependence upon the Open Offer, the Underwriting Agreement and/or the Whitewash Waiver.

INTENTION OF THE UNDERWRITER

If the Underwriter, Mr. Lie and parties acting in concert with any of them become the controlling Shareholder as a result of the Underwriter's performance of the underwriting obligations under the Underwriting Agreement, the Underwriter intends to continue the existing businesses of the Group following the completion of the Open Offer.

The Underwriter considered that the Open Offer is favourable to the Group as the Group will be able to obtain additional capital resources for further development of the Group when suitable opportunities arises. For further details of the Group's business plan, please refer to the section headed "**REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS**" in this circular. If the Underwriter, Mr. Lie and parties acting in concert with any of them become the controlling shareholder as a result of the performance of the underwriting obligations under the Underwriting Agreement, the Underwriter and the Group have no intention to introduce any material change to the existing businesses of the Group, the continued employment of the Group's employees and has no intention to re-deploy the fixed assets of the Group other than in its ordinary course of business.

WARNING OF THE RISK OF DEALING IN THE SHARES

Shareholders and potential investors should note that the Open Offer is conditional upon the satisfaction of the conditions set out in the section headed "Conditions of the Open Offer" of this circular. Accordingly, the Open Offer may or may not proceed.

Shareholders and potential investors should exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.

Shareholders and potential investors should note that the Shares are expected to be dealt in on an ex-entitlement basis commencing from Monday, 19 October 2015 and that dealings in Shares will take place while the conditions to which the Open Offer is subject remain unfulfilled. Any Shareholder or other person dealing in Shares up to the date on which all conditions to which the Open Offer is subject are fulfilled (which is expected to be on 4:00 p.m. on Monday, 16 November 2015), will accordingly bear the risk that the Open Offer cannot become unconditional and may not proceed. Any Shareholder or other person contemplating selling or purchasing Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional adviser.

RISK FACTORS

Before making any investment decision (including the Open Offer) in relation to the Company, the Shareholders and prospective investors should consider carefully all the information set out in this circular and, in particular, should evaluate the risks in connection with the operation of the Group. The business, financial condition or results of operations could be materially and adversely affected by the occurrence of any of the risks and uncertainties described below.

(1) Risk relating to the Group

(a) Risks associated with the contractual arrangements

Under the prevailing laws and regulations in the PRC, companies with foreign ownership are restricted from engaging in the provision of value-added telecommunication services and manufacturing of telecommunication system equipment for satellites business in the PRC. As such the Company relies on structured contracts ("**Contractual Arrangements**") to maintain control over operating companies established in the PRC ("**OPCO**"). The Company manages to maintain an effective control over the financial and operational policies of the OPCOs through the Contractual Arrangements which effectively transfer the economic benefits and pass the risks associated therewith of the OPCO to the Company, and as a result, the OPCOs have been consolidated as subsidiaries of the Group. The Board wishes to emphasise that the Group relies on the Contractual Arrangements to control and obtain the economic benefits from the OPCOs, which may not be as effective in providing operational control as direct ownership. The Company may have to rely on the PRC legal system to enforce the Contractual Arrangements, which remedies may be less effective than those in other developed jurisdictions.

Any conflicts of interest or deterioration of the relationship between the registered holders of the equity interest in the OPCOs and our Group may materially and adversely affect the overall business operations of the Group. The pricing arrangement under the Contractual Arrangements may be challenged by the PRC tax authority. If the Group chooses to exercise the option to acquire all or part of the equity interests in any of the OPCOs under the respective option agreements under the Contractual Arrangements, substantial amount of costs and time may be involved in transferring the ownership of the relevant OPCO held by its registered holder(s) to the subsidiaries that are equity-owned by the Company.

Further, there can be no assurance that the interpretation of the Contractual Arrangements by the PRC legal advisers to the Company is in line with the interpretation of the PRC governmental authorities and that the Contractual Arrangements will not be considered by such PRC governmental authorities and courts to be in violation of the PRC laws. In addition, the PRC governmental authorities may in the future interpret or issue laws, regulations or policies that result in the Contractual Arrangements being deemed to be in violation of the then prevailing PRC laws. Despite the above, as advised by the PRC legal advisers to the Company, the Contractual Arrangements are in compliance with and, to the extent governed by the PRC laws currently in force, are enforceable under the current PRC laws.

(b) Risks related to politics, economics and regulations

The business operations of the Group are primarily based in the PRC and Hong Kong. Accordingly, the Group's operating results, financial position and prospects could be adversely affected by economic, political and legal developments in the PRC and Hong Kong. If there is any material adverse change in the general economic, political and legal developments in the PRC and Hong Kong, the Group's operations and financial position may be adversely affected.

(c) Risks relating to the Share price

The price and trading volume of the Shares will be determined by the market and may be highly volatile. Factors such as variations in the Group's revenue, earnings and cash flows, changes in or challenges to its business, announcements of new investments, acquisitions or disposals, the depth and liquidity of the market for the Shares, investors' perceptions of the Group and general political, economic, social and market conditions both globally and in the PRC or Hong Kong could cause the market price of the Shares to change substantially.

(2) Risks relating to the Open Offer

Under the Underwriting Agreement, the Underwriter shall be entitled by notice in writing to the Company to terminate its obligations upon the occurrence of any of the events stated in the section headed "Termination of the Underwriting Agreement" in this circular on or before the Latest Time for Termination. Should the Open Offer proceed as intended, the interest of the existing Shareholders in the Company will be diluted if they do not or cannot, as the case may be, subscribe for the Offer Shares which they are entitled to.

(3) Additional Risk

Additional risks and uncertainties not presently known to the Directors, or not expressed or implied above, or otherwise deemed immaterial by the Directors as at the Latest Practicable Date, may also adversely affect the Group's business, operating results and financial condition in a material aspect.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not conducted any equity fund raising exercises in the past twelve months from the date of the Announcement.

ADJUSTMENTS IN RELATION TO THE SHARE OPTIONS AND CONVERTIBLE NOTES

As at the Latest Practicable Date, the Company has (i) outstanding Convertible Notes in an aggregate principal amount of HK$160,000,000 and convertible into 128,000,000 new Shares at the conversion price of HK$1.25 per conversion share of the Company; and (ii) 106,000,000 outstanding Share Options entitling the holders thereof to subscribe for up to an aggregate of 106,000,000 Shares.

The issue of the Offer Shares may cause adjustments to the conversion price of the Convertible Notes and the exercise price of the Share Options. Further announcement will be made by the Company in respect of such adjustments as and when appropriate.

On 5 April 2013, the Company issued Convertible Notes in an aggregate principal amount of HK$160,000,000 due on 5 April 2016 as part of the consideration of the acquisition of the entire interest in HCH Investments Limited ("**HCH Investments**"). The Convertible Notes were issued to the nominees of the vendor of HCH Investments, namely Profit Express Limited, Arch Capital Limited and Hillgo Asia Limited under the general mandate obtained in 2012.

The Convertible Note carries interest at 7% per annum. The Convertible Note entitles holders to convert the notes into new ordinary shares of the Company at an initial conversion price, subject to adjustment, of HK$2.5 per Share during the period from 5 April 2013 to 4 April 2016. Based on the initial conversion price of HK$2.5 per Share, a total of 64,000,000 new Shares may be issued upon the exercise of the conversion rights attached to the Convertible Notes.

The Convertible Note is non-transferable and is not redeemable at the option of noteholders. In addition, the Company has the right to redeem any portion of the Convertible Notes at its principal amount at any time prior to the maturity date. From the date of issue of the Convertible Notes to the Latest Practicable Date, no conversion or redemption of the Convertible Notes was made.

As a result of the completion of the bonus issue of Shares of the Company, details of which were set out in the circular of the Company dated 20 May 2015, the conversion price of the Convertible Notes were adjusted from HK$2.5 per Share to HK$1.25 per Share; and the number of Shares falling to be issued upon exercise of the conversion right of the Convertible Notes were adjusted from 64,000,000 Shares to 128,000,000 Shares with effect from 17 June 2015.

Following the completion of the Open Offer and price adjustments to the conversion price of the Convertible Notes, the number of new Shares which may be issued upon the exercise of the conversion rights attached to the Convertible Notes will exceed the limit under the general mandate obtained in 2012 for issue of the Convertible Notes. The Company will seek approval of the Shareholders at the EGM for the grant of specific mandate for the issue of Shares upon the exercise of the conversion rights attached to the Convertible Notes.

Apart from the bonus issue of Shares and the Open Offer as mentioned above, there is no other adjustment events lead to adjustments to the conversion price and/or conversion shares under of the Convertible Notes.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorised share capital of the Company is HK$1,000,000,000 divided into 10,000,000,000 Shares of HK$0.10 each, of which 6,352,562,897 Shares have been issued and allotted as fully paid or credited as fully paid. In order to allow the Company to have the flexibility to issue new Shares for future development after the completion of the Open Offer, the Company proposes to increase the authorised share capital of the Company from HK$1,000,000,000 (divided into 10,000,000,000 Shares) to HK$2,000,000,000 (divided into 20,000,000,000 Shares) by the creation of an additional 10,000,000,000 Shares which will rank *pari passu* with all existing Shares. The Board has no present intention of issuing further Shares from the Increase in Authorised Share Capital other than the issue of the Offer Shares.

The Increase in Authorised Share Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM.

IMPLICATIONS UNDER THE GEM LISTING RULES

As no excess application for the Offer Shares is available under the Open Offer and the Underwriter is an associate of Mr. Lie, being the substantial Shareholder, pursuant to Rule 10.42(2) of the GEM Listing Rules, specific approval shall be obtained from the Independent Shareholders in respect of the absence of such excess application arrangement.

Given that the Underwriter is an associate of Mr. Lie, the Underwriter is deemed to be a connected person of the Company. The allotment and issue of the Underwritten Shares to the Underwriter pursuant to the Underwriting Agreement constitutes a connected transaction for the Company under the GEM Listing Rules. This connected transaction is exempt from the reporting, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. The payment of the underwriting commission to the Underwriter constitute connected transaction for the Company under the GEM Listing Rules. As the underwriting commission to be received by the Underwriter is more than HK$10,000,000, the payment of underwriting commission by the Company to the Underwriter is therefore subject to reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

As Mr. Lie is a substantial Shareholder, the Loan Capitalisation constitutes a connected transaction for the Company under the GEM Listing Rules and requires the approval of the Independent Shareholders.

Save for the above, none of the Directors or any of the Shareholders have a material interest in (i) the allotment and issue of the Underwritten Shares to the Underwriter pursuant to the Underwriting Agreement; (ii) the payment of the underwriting commission to the Underwriter; (iii) the underwriting commission to be received by the Underwriter; and (iv) the Loan Capitalisation.

The Open Offer with the absence of excess application arrangement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation are subject to the approval of the Independent Shareholders at the EGM. As the Underwriter to the Open Offer is deemed to have a material interest in the Open Offer, the Underwriting Commission Arrangement and the Loan Capitalisation, the Underwriter, Mr. Lie, Golden Ocean and parties acting in concert with any of them and those who are involved in or interested in the Open Offer, the Underwriting Agreement and/or the Whitewash Waiver and/or the Loan Capitalisation will abstain from voting for the respective resolution(s) at the EGM for approving the Open Offer with the absence of excess application arrangement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation. The Increase in Authorised Share Capital is subject to the approval of the Shareholders at the EGM.

EGM

Set out in this circular is a notice convening the EGM which will be held at 11:00 a.m. on Thursday, 15 October 2015 at Empire Room 1, 1/F., Empire Hotel Hong Kong Wan Chai, 33 Hennessy Road, Wanchai, Hong Kong at which resolutions will be proposed to approve, among other things, the Open Offer, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement, the Loan Capitalisation and the Increase in Authorised Share Capital.

The form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the of the Company's registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

There had been no voting trust or other agreement or arrangement or understanding entered into by or binding upon any such Shareholders, and no obligation or entitlement of any such Shareholders whereby any one of them has or may temporarily or permanently passed control over the exercise of the voting right in respect of their respective interest in the Company to a third party either especially or on a case-by-case basis.

As at the Latest Practicable Date, the Underwriter, Mr. Lie and parties acting in concert with any of them are interested in an aggregate of 1,623,440,000 Shares, representing approximately 25.55% of the issued share capital of the Company, of which the Underwriter held 420,000,000 Shares, representing approximately 6.61% in the issued share capital of the Company; Golden Ocean held 23,624,000 Shares, representing approximately 0.37% in the issued share capital of the Company; and Mr. Lie held 1,179,816,000 Shares, representing approximately 18.57% in the issued share capital of the Company.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, save for the above Shareholders, no other Shareholders have a material interest in the Open Offer, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and Loan Capitalisation and will be required to abstain from voting on the relevant resolution(s) at the EGM.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has a material interest in the Increase in Authorised Share Capital and accordingly no Shareholder will be required to abstain from voting on the relevant resolution approving the Increase in Authorised Share Capital.

Subject to, among other things, the conditions of the Open Offer being satisfied, the Company will send (i) the Prospectus Documents setting out the details of the Open Offer to the Qualifying Shareholders, and (ii) the Prospectus to the Excluded Shareholders for information in compliance with the requirements of the Takeovers Code and the GEM Listing Rules as soon as possible.

RECOMMENDATIONS

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Open Offer with the absence of excess application arrangement, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation are fair and reasonable and in the interest of the Company and the Shareholders as a whole and to advise the Independent Shareholders on how to vote at the EGM. Opus Capital has been appointed as the Independent Financial Adviser to make recommendations to the Independent Board Committee and the Independent Shareholders in this regard.

Your attention is drawn to the letter from the Independent Board Committee set out on page 38 of this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM regarding the Open Offer, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation and the letter received from Opus Capital which contains its advice to the Independent Board Committee and Independent Shareholders as regards the Open Offer, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation and the principal factors and reasons considered by it in arriving thereat. The text of the letter from Opus Capital is set out on pages 40 to 80 of this circular.

Having taken into account the advice and recommendation of Opus Capital, the independent non-executive Directors consider that the terms of the Open Offer, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and Loan Capitalisation are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned. Further, the independent non-executive Directors consider that the Open Offer, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and Loan Capitalisation are in the interest of the Company and the Shareholders as a whole. Accordingly, the independent non-executive Directors recommend the Independent Shareholders to vote in favour of the proposed resolutions approving the Open Offer, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and Loan Capitalisation.

The Directors (including the independent non-executive Director after considering the advice of Opus Capital) are of the opinion that the terms of the Open Offer with the absence of excess application arrangement, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement, the Loan Capitalisation and the Increase in Authorised Share Capital are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the resolutions to be proposed in the EGM.

GENERAL

Your attention is drawn to the information contained in the Appendices to this circular.

By order of the Board
Neo Telemedia Limited
CHEUNG Sing Tai
Chairman

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)

25 September 2015

To the Independent Shareholders

Dear Sir or Madam,

**(1) PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE;
(2) APPLICATION FOR WHITEWASH WAIVER;
(3) CONNECTED TRANSACTION IN RELATION TO THE UNDERWRITING ARRANGEMENT; AND
(4) CONNECTED TRANSACTION IN RELATION TO THE LOAN CAPITALISATION**

We refer to the circular of the Company dated 25 September 2015 (the "**Circular**") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed to advise the Independent Shareholders in connection with the terms of the Open Offer with the absence of excess application arrangement, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation. Opus Capital has been appointed as the independent financial adviser to advise you and us in this respect.

Having considered the terms of the Open Offer with the absence of excess application arrangement, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation and the advice of Opus Capital in relation thereto as set out on pages 40 to 80 of the Circular, we are of the opinion that the Open Offer with the absence of excess application arrangement, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation are in the interest of the Company and the Shareholders as a whole and the terms of the Open Offer with the absence of excess application arrangement, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation, are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommended that you vote in favour of the resolutions in relation to the Open Offer with the absence of excess application arrangement, the Underwriting Agreement, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation to be proposed at the EGM.

Yours faithfully,
Independent Board Committee

Mr. Leung Ka Wo	**Mr. Chou Jianzhong**	**Ms. Xi Lina**	**Mr. Huang Zhixiong**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Independent non-executive Director*

Set out below is the text of a letter received from Opus Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Open Offer for the purpose of inclusion in this circular.

Opus Capital Limited
創富融資有限公司

18TH Floor, Fung House
19-20 Connaught Road Central
Central, Hong Kong

25 September 2015

To: The Independent Board Committee and the Independent Shareholders of Neo Telemedia Limited

Dear Sirs,

(1) PROPOSED OPEN OFFER ON THE BASIS OF ONE OFFER SHARE FOR EVERY TWO SHARES HELD ON THE RECORD DATE AT HK$0.38 PER OFFER SHARE; (2) APPLICATION FOR WHITEWASH WAIVER; (3) CONNECTED TRANSACTION IN RELATION TO THE UNDERWRITING AGREEMENT; AND (4) CONNECTED TRANSACTION IN RELATION TO THE LOAN CAPITALISATION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Open Offer, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular dated 25 September 2015 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

Reference is made to the Announcement whereby the Company announced the proposed Open Offer, the application for Whitewash Waiver, the Underwriting Commission Arrangement, the Loan Capitalisation and the Increase in Authorised Share Capital (details of which are highlighted in the Letter from the Board under the sections headed "Proposed Open Offer", "Implications under the Takeovers Code and Application for the Whitewash Waiver", "Underwriting Agreement", and "Proposed Increase in Authorised Share Capital of the Company" respectively).

THE OPEN OFFER

The Company proposed to raise not less than approximately HK$1,206.99 million (assuming no exercise of any Convertible Notes and Share Options on or before the Record Date) and not more than approximately HK$1,251.45 million (assuming exercise of all Convertible Notes and Share Options in full on or before the Record Date), before expense, by way of an Open Offer of not less than 3,176,281,448 Offer Shares and not more than 3,293,281,448 Offer Shares to the Qualifying Shareholders at a Subscription Price of HK$0.38 per Offer Share on the basis of one (1) Offer Share for every two (2) Shares held on the Record Date.

The Open Offer is fully underwritten by the Underwriter, on the terms and subject to the conditions set out in the Underwriting Agreement. We understand from the Company that the terms of the Underwriting Agreement were agreed after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the financial position of the Group, the prevailing market price of the Shares and the then market environment. The Open Offer is conditional upon, amongst other things, the passing of the resolution(s) at the EGM to approve the Open Offer becoming effective.

As no excess application for the Offer Shares is available under the Open Offer and the Underwriter is an associate of Mr. Lie, being a substantial Shareholder pursuant to rule 10.42(2) of the GEM Listing Rules, specific approval shall be obtained from the Independent Shareholders in respect of the absence of such excess application arrangement.

LOAN CAPITALISATION

As stated in the announcement of the Company dated 11 May 2015 (the "**Loan Announcement**"), the Company has entered into the Loan Agreement with Mr. Lie, pursuant to which Mr. Lie has agreed to lend to the Company a Loan of HK$100,000,000 for a period of one year at an interest rate of 5% per annum. As stated in the Loan Announcement, the Loan was allocated as working capital to the Group. Pursuant to the Underwriting Agreement, Mr. Lie and the Company have agreed that the aggregate Subscription Price required to be paid by Mr. Lie and his associates under their subscription and/or underwriting obligation of the Irrevocable Undertakings and the Underwriting Agreement will be deemed to be paid by way of full capitalisation of the Loan of HK$100,000,000, and the remaining balance of the Subscription Price (if any) will be settled in cash.

As at the Latest Practicable Date, the Underwriter, Mr. Lie and parties acting in concert with any of them hold 1,623,440,000 Shares, representing approximately 25.55% of the existing issued share capital of the Company, of which the Underwriter held 420,000,000 Shares, representing approximately 6.61% in the issued share capital of the Company; Golden Ocean held 23,624,000 Shares, representing approximately 0.37% in the issued share capital of the Company; and Mr. Lie held 1,179,816,000 Shares, representing approximately 18.57% in the issued share capital of the Company. As the Underwriter is an associate of Mr. Lie, therefore the Underwriter is a connected person of the Company under the GEM Listing Rules and (i) the payment of the underwriting commission by the Company to the Underwriter, which is more than HK$10,000,000, is subject to reporting, announcement and Independent Shareholders' approval under the GEM Listing Rules; (ii) the Loan Capitalisation constitutes a connected transaction for the Company under the GEM Listing Rules and requires Independent Shareholders' approval; and (iii) specific approval shall be obtained from the Independent Shareholders in respect of the absence of excess application arrangement for the Offer Shares. Therefore, Mr. Lie, the Underwriter, Golden Ocean and parties acting in concert with any of them shall abstain from voting on the resolution(s) in relation to the Open Offer, the Whitewash Waiver, the Underwriting Commission Arrangement and the Loan Capitalisation and the transactions contemplated thereunder at the EGM.

APPLICATION FOR THE WHITEWASH WAIVER

As at the Latest Practicable Date, the Underwriter, Mr. Lie and parties acting in concert with any of them are interested in 1,623,440,000 Shares, representing approximately 25.55% in the issued share capital of the Company. Assuming that no Shareholder will take up any Offer Shares and the Underwriter has taken up all of its assured entitlement under the Open Offer and the Underwritten Shares, the aggregate shareholding of the Underwriter, Mr. Lie and parties acting in concert with any of them upon completion of the Open Offer would increase from approximately 25.55% to (i) approximately 50.37% (assuming no exercise of the outstanding Share Options and Convertible Notes on or before the Record Date) and (ii) approximately 49.77% (assuming the exercise of the outstanding Share Options and Convertible Notes in full on or before the Record Date) and would therefore give rise to a mandatory general offer obligation on the part of the Underwriter, Mr. Lie and parties acting in concert with any of them under Rule 26 of the Takeovers Code unless the Whitewash Waiver is obtained.

An application has been made by the Underwriter to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive, has indicated that it will grant the Whitewash Waiver, subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, under which the Underwriter, Mr. Lie and the parties acting in concert with any of them will abstain from voting on the relevant resolution(s).

Completion of the Open Offer is conditional upon, among other matters, the granting of the Whitewash Waiver by the Executive and the approval of the Independent Shareholders of the Whitewash Waiver at the EGM. If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved at the EGM, the Open Offer will not proceed.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Leung Ka Wo, Mr. Chou Jianzhong, Ms. Xi Lina and Mr. Huang Zhixiong, all being the independent non-executive Directors, has been established by the Company to advise and make recommendations to the Independent Shareholders in respect of the Open Offer, the Loan Capitalisation, the Whitewash Waiver and the Underwriting Commission Arrangement. Our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders has been approved by the Independent Board Committee in this respect.

Our role as the Independent Financial Adviser is to advise the Independent Board Committee and the Independent Shareholders as to whether: (i) the terms of the Open Offer (including the Underwriting Agreement); the Loan Capitalisation; the Whitewash Waiver; and the Underwriting Commission Arrangement, are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and (ii) how the Independent Shareholders should vote on the relevant resolutions in relation to the Open Offer, the Loan Capitalisation, the Whitewash Waiver and the Underwriting Commission Arrangement at the EGM.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationship with, or interest in, the Company or any other parties that could reasonably be regarded as relevant to our independence. Apart from normal professional fees payable to us in connection with the appointment as the Independent Financial Adviser, no arrangements exist whereby we has received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, we consider that we are independent pursuant to the GEM Listing Rules.

For the avoidance of doubt, we did not act as an independent financial adviser to the Company for the two years prior to the date of this letter.

BASIS OF OUR OPINION AND RECOMMENDATION

In formulating our advice and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things, the Underwriting Agreement, the Company's annual report for the 18 months ended 31 December 2013 (the "**2013 Annual Report**"), the Company's annual report for the financial year ended 31 December 2014 (the "**2014 Annual Report**"), the Company's interim report for the six months ended 30 June 2015 (the "**2015 Interim Report**") and other information as set out in the Circular.

We have relied on the accuracy of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Company (collectively, the "**Management**"). We have assumed that all information and representations contained or referred in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they are provided or made and will continue to be so up to the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us after the Latest Practicable Date and up to and including the date of EGM. We have also assumed that all statements of belief, opinion, explanation and intention made by the Directors in the Circular were reasonable made after due enquiries and careful consideration and there are no other facts not contained in the Circular, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informal view and to provide a reasonable basis for our opinion. However we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

We have not considered the tax implications, if any, on the Qualifying Shareholders of their acceptance or non-acceptance of the Open Offer since these are particular to their own individual circumstances. Qualifying Shareholders should consider their own tax position with regard to the Open Offer and, if any doubt, should consult their own professional adviser in due course.

The Directors have collectively and individually accepted full responsibility, including particulars given in compliance with the GEM Listing Rules, for the accuracy of the information contained in the Circular and have confirmed, after having made all reasonable enquires, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other matters of facts, the omission of which would make any statement herein or the Circular misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection for their consideration of the Open Offer, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any purpose with our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Open Offer, we have taken into consideration the following principal factors and reasons:

Business overview of the Group

The principal activity of the Company is investment holding. The principal activities of its operating subsidiaries are the sale and distribution of telecommunication products, provision of cable and wireless services, value-added telecommunication services and transmedia advertising service, the operation of peer-to-peer ("**P2P**") lending platform and cross-border e-commerce businesses.

Set out below are the audited consolidated financial results of the Group for the 18 months ended 31 December 2013 ("**FP2013**"), the financial year ended 31 December 2014 ("**FY2014**") and the 6 months ended 30 June 2015, as extracted from the 2014 Annual Report and 2015 Interim Report:

Table 1: Highlights of the financial results of the Group

	Audited		
	Six months ended 30 June 2015	**Year ended 31 December 2014**	**18 months ended 31 December 2013**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*
Revenue	17.33	34.55	61.07
Profit/(Loss) after taxation	(31.92)	(632.49)	(325.19)

Source: 2014 Annual Report and 2015 Interim Report

During FY2014, the Group's operations comprised of sales of telecommunications products and services and transmedia advertising services in the PRC.

The Group recorded revenue of approximately HK$34.55 million for FY2014 and recorded revenue of approximately HK$17.33 million for the six months ended 30 June 2015. Therefore, the Company has in total recorded revenue of approximately HK$51.88 million for the 18 months ended 31 June 2015, representing a decrease of approximately 15.05% as compared to the 18 months ended 31 December 2013.

As stated in the 2014 Annual Report and as discussed with the Management, the decrease in revenue in FY2014 was mainly due to: (i) the de-consolidation of CERNET Wifi Technology (Beijing) Company Limited; and (ii) the poor performance of Ease Ray Limited and its subsidiaries, and Smart Long Limited and its subsidiaries. As stated in the 2013 Annual Report, on 21 June 2012, the Group entered into a sales agreement to dispose of its subsidiaries which are engaged in the operation of film exhibition, film rights licensing and sub-licensing and artiste management. The Group completed the disposal on 28 September 2012.

Set out below are highlights of the financial position of the Group as at 30 June 2015 and 31 December 2014, which is extracted from the 2015 Interim Report and the 2014 Annual Report:

Table 2: Highlights of the financial position of the Group

	Unaudited As at 30 June 2015 *(HK$ million)*	**Audited As at 31 December 2014** *(HK$ million)*
Cash and cash equivalents	60.88	31.67
Current assets	139.62	48.52
Total assets	378.51	147.78
Current liabilities	334.09	95.27
Net current assets/(liabilities)	(194.47)	(46.76)
Net assets/(liabilities)	15.35	(103.07)

Source: 2014 Annual Report and 2015 Interim Report

The current liabilities of the Group has increased from approximately HK$95.27 million as at 31 December 2014 to approximately HK$334.09 million as at 30 June 2015, representing an increase of approximately 250.68%. As discussed with the Management, the increase in current liabilities was mainly due to a Loan from Mr. Lie and the reclassification of the Convertible Notes from non-current liabilities to current liabilities as it will be due on 4 April 2016. As stated in the Loan Announcement, the Company entered into the Loan Agreement with Mr Lie, pursuant to which Mr. Lie has agreed to lend the Company a Loan of HK$100,000,000. As stated in the 2015 Interim Report, approximately HK$70.06 million has been utilised by the Company. As at the Latest Practicable Date, the entire Loan amount has been fully utilised by the Company.

As stated in the 2015 Interim Report, the Group had total assets of approximately HK$342.46 million and total liabilities of approximately HK$338.63 million as at 30 June 2015, representing a gearing ratio (expressed as total liabilities to total assets) of approximately 98.9% compared with approximately 58.9% as at 31 December 2014.

As at 30 June 2015, the Group has recorded current liabilities of approximately HK$334.09 million and cash and cash equivalents of approximately HK$60.88 million. Although there is an increase in the cash position of the Group, the cash available in the Group is not sufficient to support the development of existing and new businesses as stated under the section headed "Reasons for the Open Offer and Use of Proceeds" of this letter. We therefore concur with the Directors' view that the Open Offer is required to raise sufficient funds for the Group to develop the existing and new businesses.

REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

As stated in the Letter from the Board, the net proceeds to be raised from the Open Offer, being not less than approximately HK$1,090.82 million (assuming no exercise of any Convertible Notes and Share Options on or before the Record Date) and not more than approximately HK$1,134.62 million (assuming exercise of all Convertible Notes and Share Options in full on or before the Record Date), after deducting the costs and expenses in relation to the Open Offer, are intended to be applied as follows:

(i) approximately HK$125.00 million for development of the cloud computing business and building cloud computing platform for supporting the information systems integration of governmental bodies and large enterprises;

(ii) approximately HK$300.00 million for setting up the internet data centre in Panyu, Guangdong Province in the PRC, with internet data centre standard cabinets and gross floor area of approximately 40,000 sq.m. (the "**Internet Data Centre**") for provision of, among others, value-added services including data distribution and analysis and cloud related services;

(iii) approximately HK$99.50 million for carrying out the business in the provision of WiFi services and setting up access point Wifi network in Guangdong province of the PRC;

(iv) approximately HK$168.00 million for carrying out the cross-border e-commerce business and setting up the cross border electronic business platform for supporting various kinds of products, including logistics, Online to Offline ("**O2O**") experience stores, and setting up B bonded logistics zone;

(v) approximately HK$107.50 million for carrying out the logistics-related business as referred to in the announcement of the Company dated 15 June 2015 (the "**Logistics Announcement**"), where the Company acquired 43% equity interest of CNCC Logistics Equipment Company Limited for a total cash consideration of RMB2,764,717 (equivalent to approximately HK$3,455,896);

(vi) approximately HK$50.00 million for carrying out P2P lending platform business, including setting up third party payment companies and establishment of personal credit information platform; and

(vii) approximately HK$240.82 million (assuming no exercise of any Convertible Notes and Share Options on or before the Record Date) to approximately HK$284.62 million (assuming exercise of all Convertible Notes and Share Options in full on or before the Record Date) for general working capital of the Group and possible investments when investments opportunities arise.

Market outlook of cloud computing business

As stated in the 2015 Interim Report, the Group acquired 100% equity interest of Guangdong Bluesea (as defined in the Letter from the Board) on 1 April 2015, the principal business of which is the operation of an internet data centre. As discussed with the Management, the Company has started the development of cloud computing business in July 2015.

As stated in the Announcement, Guangdong Bluesea Technology (as defined in the Letter from the Board), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Inspur Cloud Computing (as defined in the Letter from the Board), pursuant to which both parties agreed to set up Inspur Weihai (as defined in the Letter from the Board), which is owned as to 60% by Inspur Cloud Computing and 40% by Guangdong Bluesea Technology and engages in the business of cloud computing and e-commerce.

As disclosed in the announcement of the Company dated 30 June 2015, Guangdong Bluesea, a wholly-owned subsidiary of the Company, entered into a letter of intent in respect of Zhuxishugu Taishan Cloud Resource Centre with the Taishan Municipal People's Government, to jointly develop Taishan Cloud Resource Centre of Big Data Industrial Base in Jiangmen City (the "**Project**"). It is expected that Inspur Weihai will be responsible for developing the Project.

As stated in the Letter from the Board, it is estimated that additional capital contribution to Inspur Weihai of approximately RMB250.00 million (equivalent to approximately HK$312.50 million) is required to fund the Project and the amount shall be contributed as to 40% by Guangdong Bluesea (representing approximately HK$125.00 million) and as to 60% by Inspur Cloud Computing (representing approximately HK$187.50 million).

As stated in the Letter from the Board, the Project is divided into the following 4 sub-projects and it is estimated that the proceeds of approximately HK$125.00 million to be provided by the Group and will be applied to the Project in the following manner:

(a) Jiangmen Municipal Government Data Centre Project

It is intended that approximately HK$50.00 million will be applied for the construction and infrastructure from the end of 2015 to 2016; and approximately HK$25.00 million for construction of server cabinets and cloud platform from July 2016 to December 2016.

(b) Jiangmen Yi Netcom Small Enterprise Cloud Platform Project

It is intended that approximately HK$15 million will be applied for the construction of system of small enterprise cloud platform and system of big data analysis from the end of 2015 to 2016; and approximately HK$10.00 million for funding for operations in or around the end of 2015.

(c) Jiangmen Binjiang Big Data Innovation Centre Project

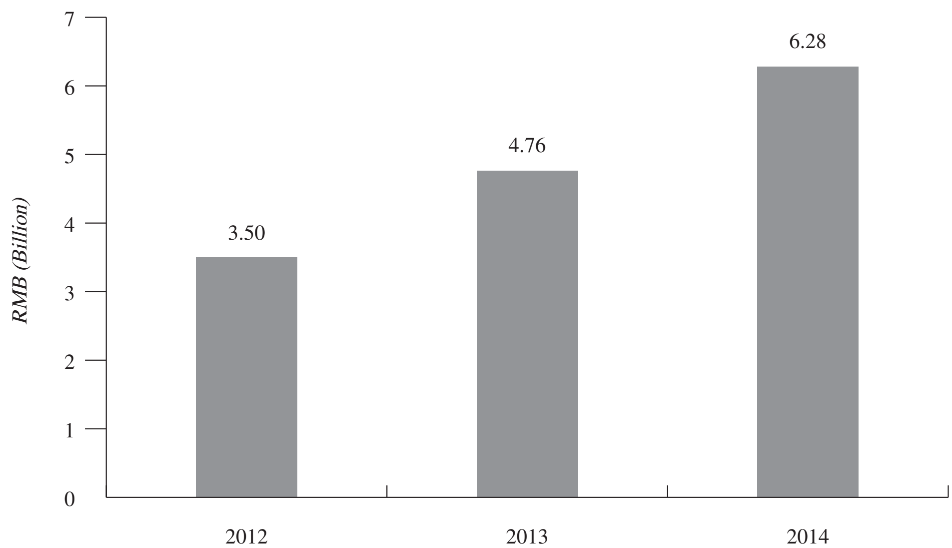
It is intended that approximately HK$12.50 million will be applied for the construction of the exhibition hall of the Innovation Centre and construction of data cloud system in or around the end of 2015; and approximately HK$2.50 million for construction of supporting data centre in or around early 2016.

(d) Jiangmen Binjiang Jiangsha Intelligent Industrial Park Project

It is intended that approximately HK$10.00 million will be applied for the construction of service cloud platform during the period from the end of 2015 to 2016.

According to the China Academy of Telecommunication Research of the Ministry of Industry and Information Technology of the PRC ("**MIIT**"), the cloud computing services market in China is at an early stage with high growth potential. Set out below is the market scale of the cloud computing service in China:

Chart 1: Market scale of cloud computing service in China



Source: *China Academy of Telecommunication Research of MIIT* [Note], *雲計算白皮書(2014年)(2014 Cloud Computing White Paper)*

Note: 雲計算白皮書(2014年)(2014 Cloud Computing White Paper) was published by China Academy of Telecommunication of Research of MIIT in May 2014. China Academy of Telecommunication of Research of MIIT is a department under China Academy of Telecommunication Research (CATR). CATR *(formerly known as China Academy of Posts and Telecommunications of the former Ministry of Posts and Telecommunications)* was established in the mid-1950s specialising in research and therefore has accumulated experience in communications policies, standards for telecommunication technologies, planning of communications development, and product testing and certification, making great contribution to the development of communications industry in China.

As shown in the chart above, the market scale of the cloud computing services in China has increased from approximately RMB3.50 billion in 2012 to approximately RMB6.28 billion in 2014, representing a compound annual growth rate (the "**CAGR**") of approximately 33.95%. The continued growth indicates a positive market outlook for cloud computing services in China.

According to the "雲計算白皮書(2014年)" (2014 Cloud Computing White Paper), in October 2010, the State Council of PRC issued the "關於加快培育發展戰略性新興產業的意見" (Opinions on Development of Strategic Emerging Industries) to include cloud computing as a new strategic industry. In 2012, the Treasury Secretary issued the "政府採購品分類目錄(試用)" (Government Purchasing Products Catalogue (Trial)), which includes software operation service, platform operation service and infrastructure operation service, indicating that the PRC's strategy about cloud computing has changed from the strategic direction towards practical application.

In view of the above, we concur with the Directors' view that the allocation of approximately HK$125.00 million for development of the cloud computing business and building cloud computing platform for supporting the information systems integration of governmental bodies and large enterprises is in the interest of the Company and the Shareholders as a whole.

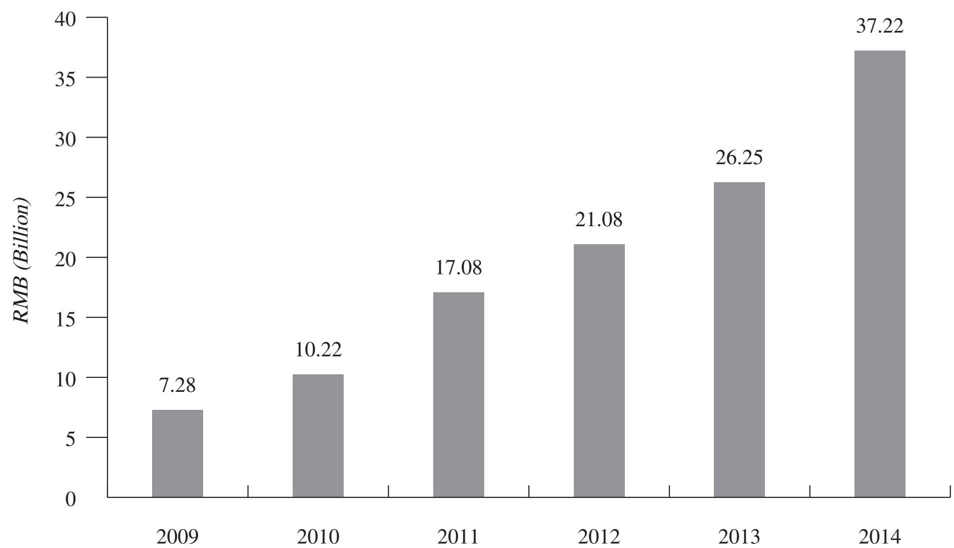
Market outlook of internet data centre

As stated in the Letter from the Board, the Directors intend to apply approximately HK$300.00 million of the net proceeds from the Open Offer for the set up of the internet data centre, of which HK$100.00 million will be used for installation of 1,000 server cabinets in or around the 4th quarter of 2015; and approximately HK$200.00 million will be used for installation of 2,000 server cabinets in 2016.

As discussed with the Management, the Internet Data Centre will consist of not less than 3,000 server cabinets, which will be installed in two stages. Each of the server cabinet can contain at most 20 servers.

According to "2014-2015年中國IDC產業發展研究報告" (2014-2015 China IDC Industry Development Report), due to the support from government policies, the market scale of internet data centres (the "**IDC**") in China has shown steady growth. Set out below is the market scale of IDC in China:

Chart 2: Market scale of IDC



Source: 2014-2015年中國IDC產業發展研究報告[Note]

Note: "2014-2015年中國IDC產業發展研究報告" was published by idcquan.com, which was established in 2006, focusing on research, data analysis and industry research in relation to internet, data center and cloud computing.

As shown in the chart above, the market scale of IDC has increased from approximately RMB7.28 billion in 2009 to approximately RMB37.22 billion in 2014, representing a CAGR of approximately 38.59%. The increasing trend of the market scale of IDC in China indicates a positive market outlook for IDC in China.

In view of the above, we concur with the Directors' view that the allocation of approximately HK$300.00 million of the net proceeds from the Open Offer for the IDC is in the interest of the Company and the Shareholders as a whole.

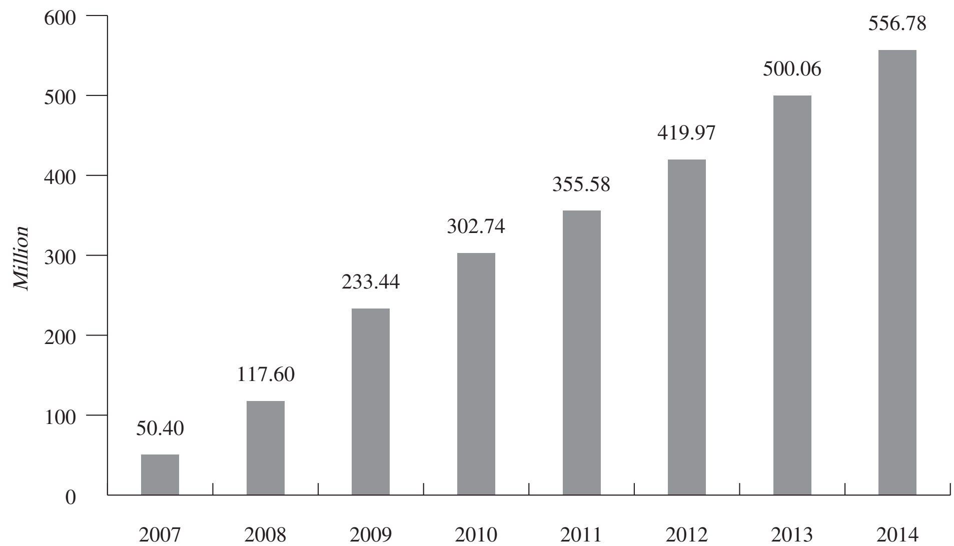
Mobile WiFi

As stated in the Letter from the Board, Guangdong Bluesea intends to expand its principal activity of provision of WiFi services in South China and set up its "bluesea-free WiFi" network with coverage of 21 municipalities in the Guangdong Province in the PRC. As discussed with the Management, the Company has been contracted to provide WiFi services and mobile application promotion for an amusement park and a food court in the Guangdong Province in the PRC, and to establish approximately 10,000 access points to provide WiFi services to approximately 1 million users in Guangzhou, the Guangdong Province in the PRC. In addition, Guangdong Bluesea has planned to construct its own high-speed wireless network in 3 universities in the Guangdong Province in the PRC, namely: Guangdong University of Technology; South China University of Technology; and Jinan University, to provide WiFi services to their approximate 150,000 students.

As discussed with the Management, it is the intention of Guangdong Bluesea to apply approximately HK$99.50 million for construction of the above networks in which approximately HK$50.00 million for the cost of 40,000 access points for the coverage of 21 municipalities in the Guangdong Province, the PRC, in or around the 4th quarter of 2015; and approximately HK$49.50 million for the cost of 3,000 hotspots at each of the above-mentioned universities in 2015.

According to the *35th Statistical Report on Internet Development in China*, the total number of mobile internet users in China has reached approximately 557 million in 2014. Mobile internet users accounted for approximately 85.8% of total internet users in China. Set out below is the total number of mobile internet users in China as extracted from the *35th Statistical Report on Internet Development in China*:

Chart 3: Total number of mobile internet users in China



Source: 35th Statistical Report on Internet Development in China [Note]

Note: 35th Statistical Report on Internet Development in China was published by China Internet Network Information Center in January 2015. China Internet Network Information Center was established in 1997, specialising internet survey, and has published 35 statistical report on internet development in China as at January 2015.

As shown in the chart above, the total number of mobile internet users in China has increased from approximately 50.40 million in 2007 to approximately 556.78 million in 2014, representing a CAGR of approximately 40.94%. The increasing trend of the total number of mobile internet users in China from 2009 to 2014 indicates a positive market outlook for mobile internet.

In view of the above, we concur with the Directors' view that the allocation of HK$99.50 million is in the interest of the Company and the Shareholders as a whole.

Market outlook of cross-border e-commerce

With the recent strategic cooperation framework agreement with China Postal Express & Logistics Co., Ltd. Guangdong Branch ("**China Postal Express Guangdong Branch**") as stated in the announcement of the Company dated 29 April 2015, the Company intends to expand and develop the business of the cross-border e-commerce integrated zone. Accordingly, the Company intends to utilise approximately HK$143.00 million for setup cost of the cross-border e-commerce integrated zone, including construction of a Type B customs warehouse; approximately HK$10.00 million for the cost of construction of website, www.bluesea-gou.com, including servers, storage devices and the relevant maintenance; and approximately HK$15 million for setup cost of O2O experience store, with gross floor area of 10,000 sq.m..

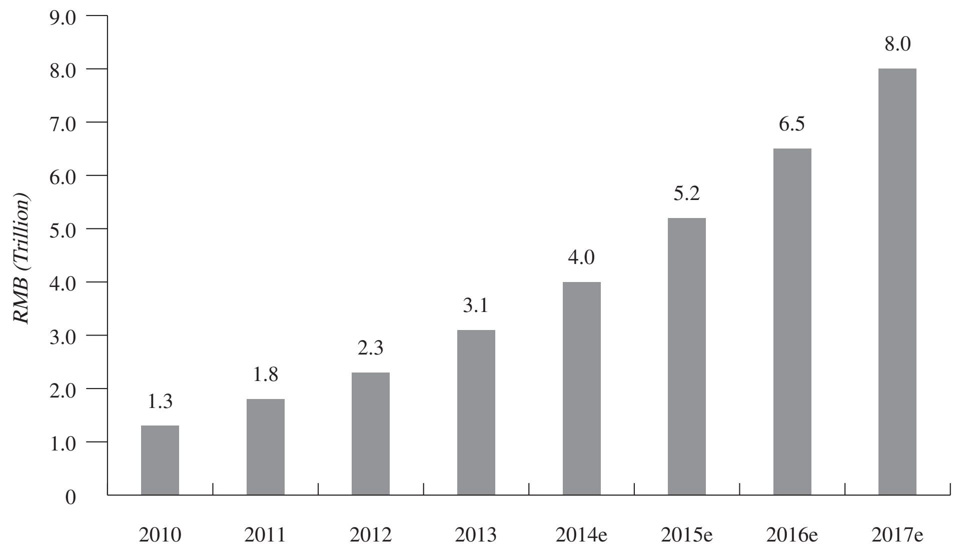
As stated in the announcement of the Company dated 10 September 2015 in relation to the cross-border e-commerce platform, Guangdong Bluesea has launched www.bluesea-gou.com on 8 September 2015, a global cross-border e-commerce platform. The cross-border e-commerce platform uses self-operated and platform combined patterns, covers various overseas direct and bonded channels.

In addition, Guangdong Bluesea entered into an overseas e-commerce strategic cooperation framework agreement with China Postal Express Guangdong Branch and 佛山(國際)家居博覽城有限公司 (Foshan (International) Furniture Mall Co., Ltd.) ("**Foshan Furniture Expo Mall**"). Pursuant to the e-commerce strategic cooperation framework agreement, Foshan Furniture Expo Mall will provide a property of at least 180,000 sq.m. in Foshan International Furniture Expo Mall in the PRC, to operate a cross-border e-commerce integrated zone. Guangdong Bluesea will be responsible for the venue leasing and venue hardware system and supporting software management system. 廣東蔚海保稅物流有限公司 (Guangdong Bluesea Bonded Logistics Co., Ltd.) ("**Bluesea Bonded Logistics**"), a subsidiary of Guangdong Bluesea, will be responsible for the operation.

As stated in the announcement of the Company dated 11 September 2015, with reference to the announcement of the Company dated 17 August 2015, the Company completed the acquisition of Million Ace Limited and it has become a wholly-owned subsidiary of the Company. The acquisition represents an expansion in the Company's electronic and telecommunication products' distribution business. As discussed with the Management, the Board also considers that the acquisition will facilitate the business development of the cross-border e-commerce platform.

According to the *2014 China Cross-Border E-commerce Report*, gross merchandise volume of China cross-border e-commerce amounted to approximately RMB3.1 trillion in 2013. Set out below is China cross-border e-commerce gross merchandise volume:

Chart 4: China cross-border e-commerce gross merchandise volume



Source: 2014 China Cross-Border E-commerce Report [Note]

Note: 2014 China Cross-Border E-commerce Report was published by iResearch Consulting Group, which was established in 2002, focusing on in-depth research in China's internet industry, including online media, e-commerce, online games, mobile internet and wireless value-added services.

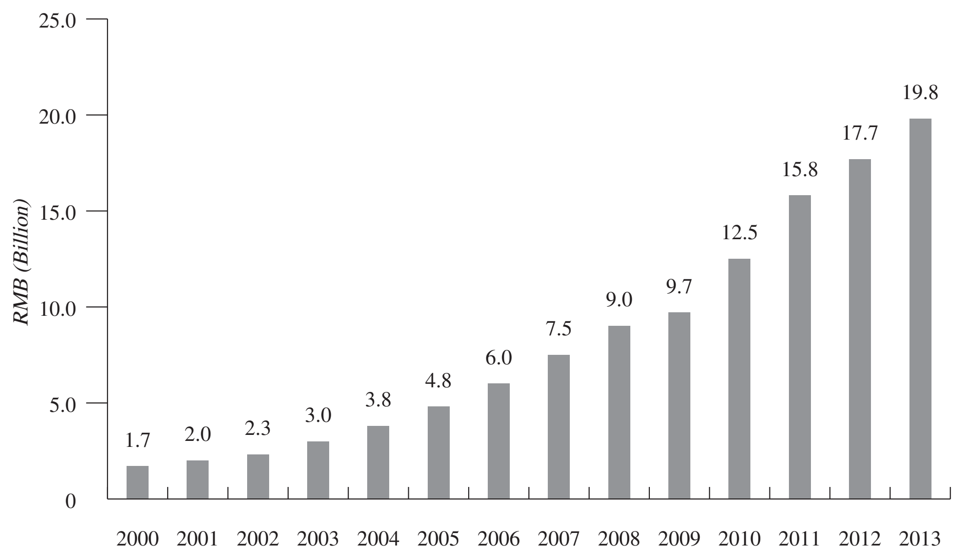
As shown in the chart above, the gross merchandise volume of China cross-border e-commerce is expected to increase from approximately RMB1.3 trillion in 2010 to approximately RMB8.0 trillion in 2017, representing a CAGR of approximately 29.64%. The chart above shows an increasing trend in the gross merchandise volume of China cross-border e-commerce, which indicates an increasing trend in customers using e-commerce for trading purposes, that augurs well for a favourable market outlook for cross-border e-commerce in China.

In view of the above, we concur with the Directors' view that the allocation of approximately HK$168.00 million for the cross-border e-commerce business is in the interest of the Company and the Shareholders as a whole.

Market outlook of logistics business

As discussed with the Management, the Company commenced its logistics business in June 2015.

Chart 5: Total value of logistics in China from 2000 to 2013



Source: National Bureau of Statistics of China, Deloitte

As shown in the chart above, the total value of logistics in China is on an increasing trend, from approximately RMB1.7 billion in 2000 to approximately RMB 19.8 billion in 2013, representing a CAGR of approximately 20.79%. As stated in the "2014-2015中國物流產業投資促進報告"(2014-2015 Promotion Report on Investment in China Logistics Industry) jointly published by Deloitte Touche Tohmatsu Limited, China Investment Promotion Agency and Development & Research Center of the State Post Bureau in June 2015, with the fast growing PRC economy and the buoyant service industry, the logistics industry in China has shown rapid growth.

In addition, the government has adopted policies to support the development of the logistics industry in China. From September to October in 2013, the PRC Government proposed the "One Belt and One Road" strategy, which is aimed to promote the development of the transportation and logistics industry in China.

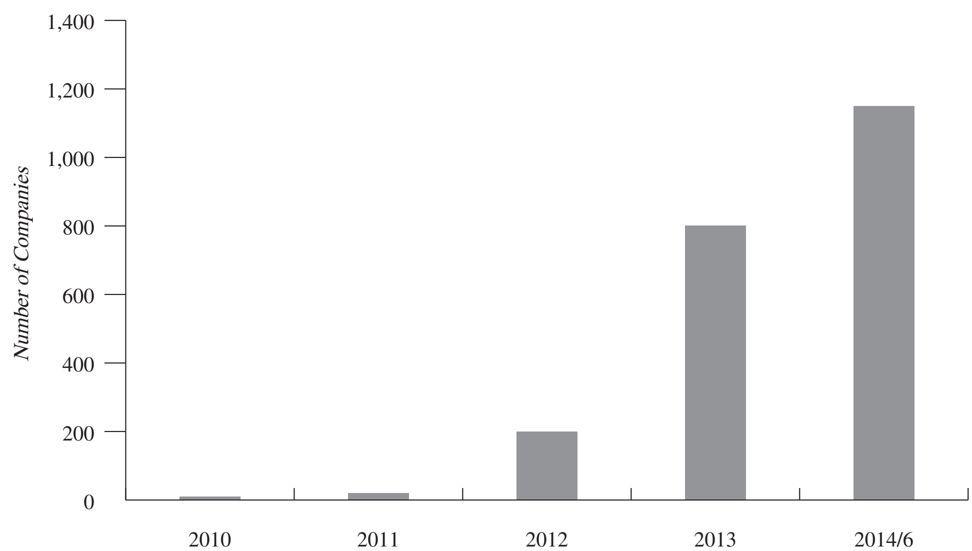
In view of the increasing trend in the total value of logistics in China and the favourable government policies issued by the government, we concur with the Directors' view that the allocation of approximately HK$107.50 million for the logistics related business is in the interest of the Company and Shareholders as a whole.

Market outlook of P2P lending industry

As discussed with the Management, the Company commenced its P2P lending business in May 2015. The Company intends to utilise approximately HK$50.00 million to establish third-party payment company, develop personal credit information platform, set up integrated service shops in the Pearl River Delta and increase marketing to aim for 100,000 online registered users.

As stated in the *Risks and opportunities in China's growing P2P lending market* by Normura Research Institute Limited, P2P lenders provide a platform for individuals to lend to and borrow from each other online. Set out below is the total number of P2P lenders and P2P loans outstanding:

Chart 6: Total number of P2P lenders

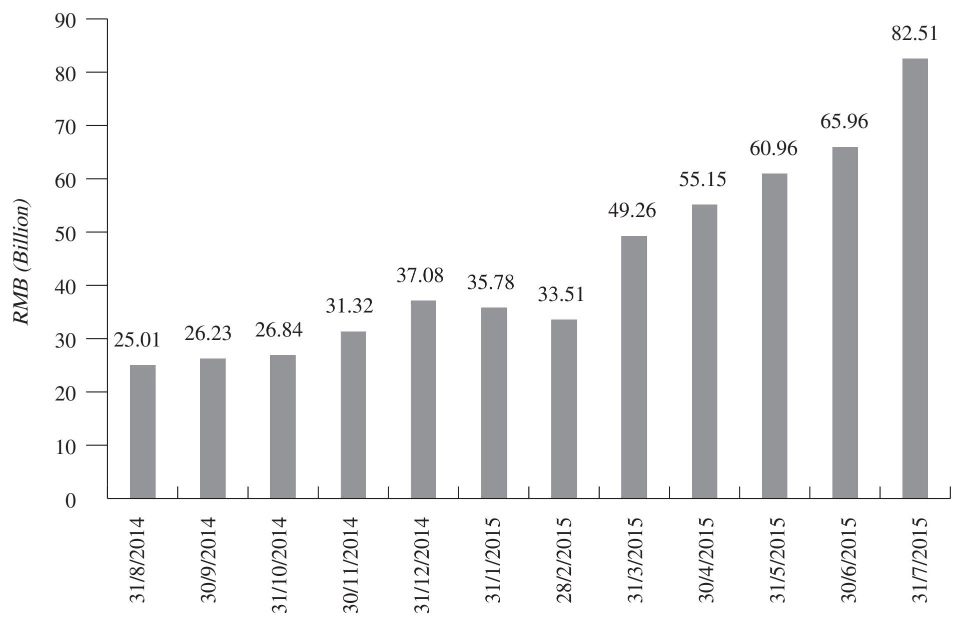


Source: Risks and opportunities in China's growing P2P lending market, Normura Research Institute Limited [Note]

Note: Normura Research Institute Limited was established in 1965, focusing on consulting, financial IT solutions, industrial IT solutions and IT platform services.

As shown in the chart above, the total number of P2P lenders shows an increasing trend. In addition, as stated in the website *www.wangdaizhijia.com*, which is one of the sources for the *Risks and opportunities in China's growing P2P lending market* by Normura Research Institute Limited, the total transaction volume in July 2015 has reached approximately RMB82.51 billion, representing an increase of approximately 25.10% compared to June 2015. The accumulated transaction volume has reached approximately RMB766 billion. Set out below is the total transaction volume of P2P platform in China:

Chart 7: Total transaction volume of P2P platform in China



Source: www.wangdaizhijia.com

As shown in the chart above, the transaction volume of P2P platform in China has shown an increasing trend which indicates a positive market outlook for P2P lending industry. In view of the above, we concur with the Directors' view that the allocation of approximately HK$50.0 million for P2P lending business is in the interest of the Company and the Shareholders as a whole.

General working capital

As discussed with the Management, approximately HK$240.82 million (assuming no exercise of any Convertible Notes and Share Options on or before the Record Date) to approximately HK$284.62 million (assuming exercise of all Convertible Notes and Share Options in full on or before the Record Date) for general working capital of the Group and possible investments when investments opportunities arise.

Other financing alternatives available to the Group

As highlighted in the Letter from the Board, when formulating the structure of the Open Offer, the Directors have considered various fund raising alternatives for the Group including but not limited to debt financing and issue of new Shares. Taking in account the benefits and costs of each of the alternatives, the Board considers that the Open Offer is in the interest of the Company and the Shareholders as a whole as it gives the Qualifying Shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and participate in the growth and development of the Group and its would not incur additional costs in respect of the trading of nil-paid rights under rights issue.

As discussed with the Management, the Board believes that it is prudent to finance the expansion of the Group's business by equity financing as it will not increase the Group's finance costs and yet will provide the Group with the necessary financial resources. The Board believes that debt financing will result in additional interest burden to and higher gearing ratio of the Group and subject the Group to repayment obligations. In addition, the Directors consider that it will not be feasible for the Company to obtain the required amount from bank financing at favourable terms since the Group showed negative shareholders' equity in FY2014 and only has positive shareholders' equity of approximately HK$15.35 million as at 30 June 2015. As discussed with the Management, the Company has attempted to obtain loan financing from its principal bankers but no positive feedback was received. In addition, placing of new Shares would not be available for all Qualifying Shareholders and would possibly dilute the shareholding of the existing Shareholders.

The Open Offer will be fully underwritten by the Underwriter on the terms and subject to the conditions set out in the Underwriting Agreement. We consider that entering into the Underwriting Agreement will ensure the Group to raise the required funding under the Open Offer and remove a certain degree of uncertainty as compared to best-efforts placements, which is in the interest of the Company.

Although rights issue is similar to open offer, the rights issue enables the qualifying shareholders to trade in the nil-paid rights in the market for economic benefits. However, the arrangement for trading of the nil-paid rights arose from the rights issue would involve additional administrative work and cost to the Group for the trading arrangement of nil-paid rights. In view of the above, the Board considered that raising funds by way of the Open Offer is more cost effective and efficient and beneficial to the Company and its Shareholders as a whole as compared to a rights issue.

Having taken into account the financial needs of the Group, the possible benefits of the Open Offer and the availability of and comparison with other financing alternatives, we concur with the Directors that the Open Offer is in the interests of the Company and the Shareholders as a whole.

As discussed with the Management, the Company has discussed with 3 other independent underwriters regarding possible fund raising. However, the Company was not able to negotiate any offer better than the terms of the Open Offer.

PRINCIPAL TERMS OF THE OPEN OFFER

The Company proposes to raise not less than approximately HK$1,206.99 million and not more than approximately HK$1,251.45 million, before expenses, by way of an open offer of not less than 3,176,281,448 Offer Shares and not more than 3,293,281,448 Offer Shares at a Subscription Price of HK$0.38 per Offer Share on the basis of one (1) Offer Share for every two (2) existing Shares held on the Record Date. The following table summarises the major terms of the Open Offer:

Basis of the Open Offer:	One (1) Offer Share for every two (2) existing Shares held on the Record Date
Subscription Price:	HK$0.38 per Offer Share
Number of Shares in issue as at the Latest Practicable Date:	6,352,562,897 Shares
Number of Offer Shares:	Not less than 3,176,281,448 Offer Shares and not more than 3,293,281,448 Offer Shares
Aggregate nominal value of Offer Shares:	Not less than HK$317,628,144.80 and not more than HK$329,328,144.80

Number of Offer Shares undertaken to be taken up by the Underwriter and parties acting in concert with it:	Pursuant to the Underwriting Agreement, each of the Underwriter, Mr. Lie and Golden Ocean has irrevocably undertaken to the Company, among other things, that (i) it will not, within the period commencing from the date of the Underwriting Agreement and ending on the Settlement Date, transfer or otherwise dispose of, or create any right in respect of any Shares held by it, and (ii) subject to the fulfillment (or waiver) of the conditions of the Open Offer and the Underwriting Agreement not having been terminated in accordance with its terms, it will take up its entitlements under the Open Offer, being an aggregate of 811,720,000 Offer Shares.
Number of Offer Shares underwritten by the Underwriter:	All of the Offer Shares (other than the Offer Shares undertaken to be taken up by the Underwriter under the Irrevocable Undertakings), being, not less than 2,364,561,448 new Shares and not more than 2,481,561,448 new Shares
Number of Shares in issue immediately upon completion of the Open Offer:	Not less than 9,528,844,345 Shares and not more than 9,879,844,345
Underwriting Commission:	1.50%

As stated in the Letter from the Board, as at the Latest Practicable Date, the Company has outstanding Share Options entitling holders to subscribe for 106,000,000 Shares and outstanding Convertible Notes which are convertible into 128,000,000 Shares. Save as the aforesaid, the Company has no other outstanding derivatives, warrants, options and conversion rights or other similar rights which are convertible or exchangeable into Shares.

The Subscription Price of HK$0.38 per Offer Share will be payable in full upon application by a Qualifying Shareholder. The Subscription Price represents:

(a) a discount of approximately 77.51% to the closing price of HK$1.69 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a discount of approximately 78.89% to the average closing price of approximately HK$1.80 per Share for the last five consecutive trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

(c) a discount of approximately 69.67% to the theoretical ex-entitlement price of approximately HK$1.253 per Share as adjusted for the effect of the Open Offer based on the closing price of HK$1.69 per Share as quoted on the Stock Exchange on the Last Trading Day;

(d) a discount of approximately 45.71% to the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

(e) a discount of approximately 35.92% to the theoretical ex-entitlement price of approximately HK$0.593 per Share as adjusted for the effects of the Open Offer, based on the closing price of HK$0.70 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As stated in the Letter from the Board, the Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriter with reference to, among other things, the financial position of the Group with audited net liabilities as at 31 December 2014, the then prevailing market price of the Shares with increases since early May 2015 and the then market environment remain relatively uncertain and the trading liquidity of the Shares under the relatively uncertain market sentiments in the equity market.

ANALYSIS ON THE SUBSCRIPTION PRICE

For the purpose of assessing the fairness and reasonableness of the Subscription Price, we compared the Subscription Price with reference to: (i) the recent price performance of the Shares; and (ii) the market comparable analysis, as follows:

Review on Share price performance

The following table illustrates the highest and lowest closing prices and the average closing price of the Shares as quoted on the Stock Exchange in each month during the period commencing from 20 June 2014 up to and including the Last Trading Day (the "**Review Period**").

Table 3: Historical daily closing prices of the Shares during the Review Period

Month	Highest daily closing price of the Shares *(HK$)*	Lowest daily closing price of the Shares *(HK$)*	Average daily closing price of the Shares *(HK$)*	Number of trading days in each month *(days)*
2014				
June (from 20 June)	0.200	0.148	0.177	7
July	0.193	0.155	0.181	22
August	0.210	0.168	0.182	21
September	0.198	0.168	0.187	21
October	0.195	0.160	0.176	21
November	0.170	0.148	0.156	20
December	0.155	0.135	0.147	21
2015				
January	0.198	0.143	0.167	21
February	0.213	0.195	0.202	3
March *(Note)*	N/A	N/A	N/A	N/A
April *(Note)*	N/A	N/A	N/A	N/A
May	0.950	0.390	0.695	13
June (up to and including the Last Trading Day)	1.960	1.185	1.615	11

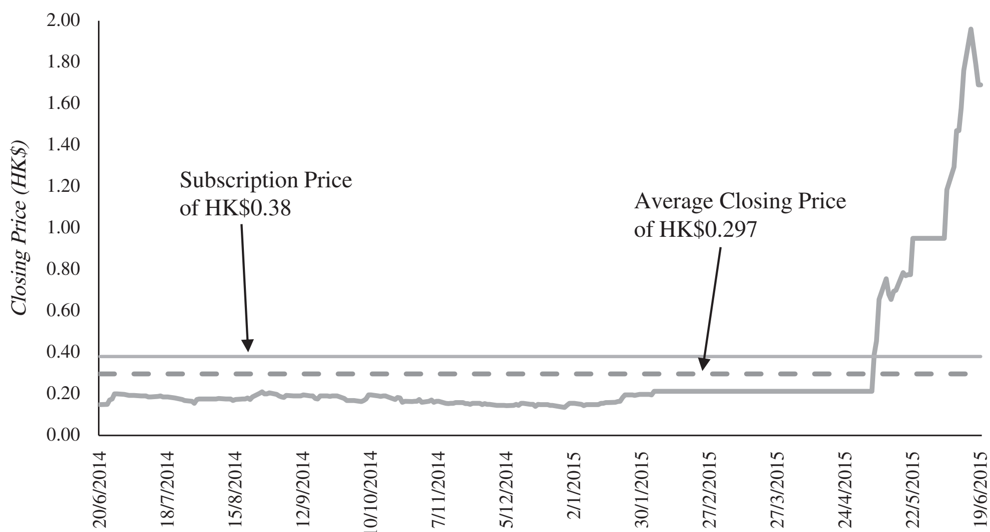
Source: Bloomberg, Stock Exchange

Note:

The Shares were suspended from 5 February 2015 to 5 May 2015 and 26 May 2015 to 4 June 2015.

During the Review Period, the daily closing price of the Shares ranged from HK$0.135 to HK$1.960 per Share. In addition, the following chart highlights the movements of the daily closing price of the Shares as quoted on the Stock Exchange during the Review Period.

Chart 8: Historical daily closing prices of the Shares during the Review Period



Source: Bloomberg

We note that the Subscription Price of HK$0.38 is above the daily closing prices of the Shares for most of the times throughout the Review Period and represents: (i) a discount of approximately 80.61% from the highest closing price of HK$1.960; (ii) a premium of approximately 181.48% from the lowest closing price of HK$0.135; and (iii) a premium of approximately 27.95% from the average daily closing price of the Shares of HK$0.297 during the Review Period.

Although the Subscription Price of HK$0.38 is above the daily closing prices of the Shares for most of the time throughout the Review Period, the Subscription Price represents a discount to the daily closing price after 6 May 2015 onwards. As discussed with the Directors, they are of the view that the surge in Share prices on 6 May 2015 and 5 June 2015 are probably due to the announcement of the Company dated 5 May 2015 in relation to the memorandum of understanding in respect of the establishment of the Shenzhou Aerospace Institute and the announcement of the Company dated 4 June 2015 in relation to a possible very substantial acquisition by the Company respectively.

As all Qualifying Shareholders are entitled to subscribe for the Offer Shares in the same proportion to his/her/its existing shareholding in the Company held on the Record Date, the Directors consider that the discount of the Subscription Price to the prevailing market price since May 2015 would encourage the Qualifying Shareholders to take up their entitlements so as to maintain their shareholdings in the Company and participate in the future growth of the Group. We concur with the Directors' view that the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Comparison with the Open Offer Comparables

In order to reflect the general trend of open offer transactions in the recent market, we have, on a best effort basis, conducted a search of all recent open offers announced within the six-month period from 20 December 2014 up to the Last Trading Day (the "**Comparison Period**"). We are of the opinion that due to the volatility of the share prices of the companies listed on the Stock Exchange, the Comparison Period reflects a fair and recent period of comparison for the Open Offer. As the capital market changes rapidly, we consider that the Open Offer Comparables (as defined below) reflects the latest market conditions of open offers. During the Comparison Period and based on our research conducted, we identified a total of 28 open offers announced by companies listed on the Stock Exchange (the "**Open Offer Comparables**"). To the best of our knowledge, effort and endeavor and based on the information disclosed on the Stock Exchange's website *(http://www.hkexnews.hk/index.htm)* and Bloomberg, the list of the Open Offer Comparables is an exhaustive list of comparable open offers for comparison purpose. We also noted that the business activities of the Open Offer Comparables are not directly comparable to those carried out by the Group and the terms of the open offer of the Open Offer Comparables may vary from companies with different financial standings, business performance and future prospects. Since the Open Offer Comparables are the most recent open offer transactions announced to the public, we consider that the Open Offer Comparables could represent the recent trend of the open offer transactions in the prevailing market condition and could provide a general reference in respect of the common market practice on open offers conducted by listed companies in Hong Kong. The details are set out below:

Table 4: Comparable analysis of the Open Offer Comparables

Company Name	Stock Code	Announcement Date	Basis of entitlement	Discount of the subscription price to the closing price per share on the last trading day prior/on the date of announcement in relation to the respective open offer (%)	Discount of the subscription price to the ex-entitlements price per share on the last trading day prior to/on the date of announcement in relation to the respective open offer (%)	Underwriting Commission (%)	Excess Application
Tai Shing International (Holding) Ltd	8103	17/6/2015	1 for 2	59.68	49.66	3.00	No
China National Culture Group Ltd	745	8/6/2015	1 for 1	76.40	61.80	2.00	No
New City Development Group Ltd	456	3/6/2015	1 for 4	24.32	20.45	0.00	No
APAC Resources Ltd	1104	27/5/2015	1 for 2	50.74	40.72	2.00	Yes
National United Resources Holdings Ltd	254	22/5/2015	1 for 2	53.57	43.48	1.50	No
Wealth Glory Holdings Ltd	8269	22/5/2015	1 for 2	34.00	25.50	3.00	No
Hailiang International Holdings Ltd	2336	15/5/2015	1 for 2	34.07	25.60	0.75	Yes
China Kingstone Mining Holdings Ltd	1380	14/5/2015	1 for 2	61.50	51.70	3.50	No
Mastermind Capital Ltd	905	13/5/2015	2 for 1	59.50	28.10	2.44	No
Merdeka Mobile Group Ltd	8163	8/5/2015	2 for 1	76.62	52.13	2.50	Yes
China Vehicle Components Technology Holdings Ltd	1269	4/5/2015	1 for 1	86.80	76.60	2.00	Yes
Hua Han Bio-Pharmaceutical Holdings Ltd	587	28/4/2015	1 for 2	43.48	33.91	2.50	Yes
RCG Holdings Ltd	802	24/4/2015	5 for 1	78.40	37.80	2.00	No
China Culiangwang Holdings Ltd	904	17/4/2015	2 for 1	77.80	53.80	2.50	No
Century Sunshine Group Holdings Ltd	509	14/4/2015	1 for 2	47.37	37.50	1.50	No
Jun Yang Solar Power Investments Ltd	397	13/4/2015	1 for 2	25.71	18.75	2.50	No
Seamless Green China Holdings Ltd	8150	8/4/2015	1 for 2	17.14	12.12	1.50	No
Powerwell Pacific Holdings Ltd	8265	31/3/2015	1 for 2	24.73	17.94	2.00	No
EPI Holdings Ltd	689	31/3/2015	1 for 2	45.10	35.30	1.00	No
Chi Energy Holdings Ltd	8009	24/3/2015	1 for 1	40.48	25.37	2.50	No
Celebrate International Holdings Ltd	8212	18/3/2015	30 for 1	92.90	29.70	3.00	Yes
Capital VC Ltd	2324	13/3/2015	5 for 1	76.60	28.60	1.00	No
Heng Fai Enterprises Ltd	185	27/2/2015	1 for 10	11.50	10.60	2.50	Yes
Solartech International Holdings Ltd	1166	6/2/2015	5 for 1	69.70	27.80	2.50	No
Global Energy Resources International Group Ltd	8192	5/2/2015	1 for 2	35.06	26.50	2.50	No
Convoy Financial Holdings Ltd	1019	6/2/2015	3 for 1	71.26	38.27	3.50	No
O Luxe Holdings Ltd	860	4/2/2015	2 for 1	57.70	31.80	0.50	No
Prosperity Investment Holdings Ltd	310	16/1/2015	1 for 2	28.57	21.04	3.00	No
Average				52.17	34.38	2.11	
Maximum				92.90	76.60	3.50	
Minimum				11.50	10.60	0.00	
The Company	**8167**	**11/8/2015**	**1 for 2**	**77.51**	**69.67**	**1.50**	**No**

Source: Stock Exchange and Bloomberg

As shown in the above table, the subscription prices of the Open Offer Comparables represented discounts ranging from approximately 11.50% to approximately 92.90% with an average of approximately 52.17% to the respective closing prices of their shares on the last trading days prior to/on the date of the release of the respective open offer announcements. Although we note that the discount of approximately 77.51% to the closing price of the Shares on the Last Trading Day is higher than the average of the Open Offer Comparables, the discount of approximately 77.51% to the closing price of the Shares on the Last Trading Day as represented by the Subscription Price nevertheless falls within the range. The Subscription Price of HK$0.38 represents a premium of approximately 151-fold over the unaudited net asset value per Share of the Company of approximately HK$0.0025 as at 30 June 2015. Although the Subscription Price is at a deep discount to the closing price of the Shares on the Last Trading Day, it is at a significant premium over the net asset value of the Company as at 30 June 2015. We also consider that the Open Offer offers all the Qualifying Shareholders an equal opportunity to subscribe for their pro-rata entitlement of the Open Offer and hence avoids dilution. In view of the above, we are of the view that the discount of approximately 77.51% to the closing price of the Shares on the Last Trading Day is acceptable.

Furthermore, the subscription prices of the Open Offer Comparables represented discounts ranging from approximately 10.60% to approximately 76.60% with an average of approximately 34.38% to the respective theoretical ex-entitlements prices of their shares on the last trading days prior to/on the date of the release of the respective open offer announcements. Although the discount of approximately 69.67% to the theoretical ex-entitlements price as represented by the Subscription Price is higher than the average of the Open Offer Comparables, such discount nonetheless falls within the range of the Open Offer Comparables.

We note that the above Open Offer Comparables provide a general trend of recent open offer transactions in the market. In order to compare the Subscription Price with more direct comparables, we have, on a best effort basis, conducted a further analysis on the Open Offer Comparables whose businesses are similar to that of the Company (the "**Direct Open Offer Comparables**"). We have identified four Direct Open Offer Comparables and the details are set out below:

Table 5: Comparable analysis of the Direct Open Offer Comparables

Company Name	Stock Code	Principal Business	Announcement Date	Basis of entitlement	Discount of the subscription price to the closing price per share on the last trading day prior/on the date of announcement in relation to the respective open offer	Discount of the subscription price to the ex-entitlements price per share on the last trading day prior to/on the date of announcement in relation to the respective open offer
RCG Holdings Ltd	802	Internet and mobile applications and related accessories; trading of security of biometric products; solutions, projects and services; and commodities trading	24/4/2015	5 for 1	78.40	37.80
Capital VC Ltd	2324	Mobile application; and investment	13/3/2015	5 for 1	76.60	28.60
China National Culture Group Ltd	745	Advertising; and movie production	8/6/2015	1 for 1	76.40	61.80
National United Resources Holdings Ltd	254	Media business; and natural resource trading	22/5/2015	1 for 2	53.57	43.48
Average					71.24	42.92
Maximum					78.40	61.80
Minimum					53.57	28.60
The Company	**8167**	**Sales of telecommunications products services (including but not limited to mobile application); transmedia advertising service; value-added telecommunication services; operation of P2P lending platform and cross-border e-commerce** [Note]	**11/8/2015**	**1 for 2**	**77.51**	**69.67**

Source: *Stock Exchange and Bloomberg*

Note: The principal activity of the Company is investment holding. The principal activities stated in the table are the principal activities of its operating subsidiaries.

As shown in the above table, the subscription prices of the Direct Open Offer Comparables represented discounts ranging from approximately 53.57% to approximately 78.40% with an average of approximately 71.24% to the respective closing prices of their shares on the last trading days prior to/on the date of the release of the respective open offer announcements. Although we note that the discount of approximately 77.51% to the closing price of the Shares on the Last Trading Day as represented by the Subscription Price is higher than the average of the Direct Open Offer Comparables, the discount of approximately 77.51% to the closing price of the Shares on the Last Trading Day as represented by the Subscription Price nevertheless falls within the range.

Furthermore, the subscription prices of the Direct Open Offer Comparables represented discounts ranging from approximately 28.60% to approximately 61.80% with an average of approximately 42.92% to the respective theoretical ex-entitlements prices of their shares on the last trading days prior to/on the date of the release of the respective open offer announcements. We note that the discount of approximately 69.67% to the theoretical ex-entitlement price as represented by the Subscription Price is higher than the average of the Direct Open Offer Comparables, and falls outside of the range of the Direct Open Offer Comparables. However, having considered that: (i) discount of approximately 77.51% to the closing price of the Shares on the Last Trading Day as represented by the Subscription Price falls within the range of that of the Open Offer Comparables and also the Direct Open Offer Comparables; and (ii) the discount of approximately 69.67% to the theoretical ex-entitlement price as represented by the Subscription Price falls within the range of the Open Offer Comparables and (iii) although the businesses of the Direct Open Offer Comparables are similar to that of the Company, such companies are still not identical to the businesses of the Company, and hence at best will act as only a general indication, we are therefore of the view that the Subscription Price is fair and reasonable.

Apart from the above mentioned Open Offer Comparables analysis, we have also considered price-to-book and price-to-earning comparable analysis. However, these two ratios analysis are not applicable to the Company due to the loss making position of the Company for FY2014 and the negative net tangible assets value of the Company as at 30 June 2015 due to a significant intangible asset value of approximately HK$145.64 million. In addition, as discussed with the Management, the Subscription Price was arrived at after arm’s length negotiations between the Company and the Underwriter. As stated in the Letter from the Board, it is indicated to the Company that the relatively deep discount of the Subscription Price to the closing price is necessary to induce the Underwriter to participate in the underwriting of the Underwritten Shares, which is an essential part of the Open Offer.

Based on the above and having considered in particular that:

(i) the Company has funding needs for: (1) development of the cloud computing business; (2) setting up of the Internet Data Centre in the PRC; (3) WiFi services and setting up access point WiFi network in the Guangdong Province of the PRC; (4) cross-border e-commerce business; (5) logistics related business; and (6) P2P lending platform business;

(ii) the Subscription Price was arrived at after arm's length negotiations between the Company and the Underwriter;

(iii) it is a common market practice that the subscription prices of an open offer is normally set at a discount to the prevailing market prices of the relevant shares in order to enhance the attractiveness of an open offer and to encourage the existing Shareholders to participate in the open offer;

(iv) the discounts represented by the Subscription Price to the closing price of the Shares on the Last Trading Day and the theoretical ex-entitlement price falls within the corresponding discounts range of the Open Offer Comparables;

(v) after considering the benefits and drawbacks of other fund raising alternatives, the Open Offer seems to be an appropriate means for the Company to raise funds, in particular as the Open Offer offers all the Qualifying Shareholders an equal opportunity to subscribe for their pro-rata entitlement of the Open Offer and hence avoids dilution; and

(vi) the entering into the Underwriting Agreement will ensure the Group to raise the required funding under the Open Offer;

we are of the view that the Subscription Price is fair and reasonable so far as the Independent Shareholders are concerned.

Underwriting commission

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to underwrite the Offer Shares not subscribed for by the Qualifying Shareholders on a fully underwritten basis, subject to the terms and conditions of the Underwriting Agreement with an underwriting commission of 1.5% of the aggregate Subscription Price in respect of the number of Underwritten Shares (the "**Underwriting Commission**"). As confirmed by the Directors, the Underwriting Commission was determined after arm's length negotiations between the Company and the Underwriter with reference to, among other things, the scale of the Open Offer and the market rate.

Based on Table 4 above, we note that the Underwriting Commission is in line with the common market practice and falls within the range of underwriting commissions of 0.00% to 3.50% and also below than the average of 2.11% received by underwriters in the Open Offer Comparables. Furthermore, the underwriting commission is calculated on the underwritten Shares which exclude the Irrecoverable Undertakings, which is fair since the Underwriter is an associate of Mr. Lie. In view of the above, we consider that the Underwriting Commission is on normal commercial terms and is fair and reasonable.

Termination of the Underwriting Agreement

It should be noted that the Open Offer would not proceed if the Underwriter exercise their termination rights under the Underwriting Agreement. Details of the provisions granting the Underwriter such termination rights are included in the Letter from the Board section headed *"Termination of the Underwriting Agreement"*. After reviewing announcements and/or circulars of the Open Offer Comparables, we consider such provisions are on normal commercial terms and in line with the market practice.

No application for excess Offer Shares

No Qualifying Shareholder is entitled to apply for any Offer Shares which are in excess to his/her entitlement. Any Offer Shares not taken up by the Qualifying Shareholders, and the Offer Shares to which the Non-Qualifying Shareholders would otherwise have been entitled under the Open Offer, will not be available for subscription by other Qualifying Shareholders by way of excess application and will be taken up by the Underwriter.

The Directors hold the view that the Open Offer allows the Qualifying Shareholders to maintain their respective pro-rata shareholding in the Company and to participate in the future growth and development of the Group. As discussed with the Management, related administration costs in relation to the excess application is expected to be approximately HK$150,000. After arm's length negotiations with the Underwriter, and taking into account that the related administration costs would be lowered in the absence of excess application, the Directors consider that it is fair and reasonable and in the interests of the Company and the Shareholders as a whole not to offer any excess application to the Qualifying Shareholders.

Pursuant to the Underwriting Agreement, the Underwriter has conditionally agreed to subscribe or procure subscription for the Offer Shares which have not been taken up by the Qualifying Shareholders.

After reviewing announcements and/or circulars of the Open Offer Comparables in relation to the open offers, we noted that the above practice: (i) is in line with the market practice (i.e. 21 out of 28 Open Offer Comparables had no excess application for their open offer exercises); (ii) is able to lower the related administration costs in the absence of excess applications; and (iii) allows the Qualifying Shareholders to maintain their respective pro rata shareholding, we are of the view that such arrangement is fair and reasonable to the Company and the Shareholders as a whole.

Taking into account the above principal terms of the Open Offer and the Underwriting Agreement, we consider that the terms of the Open Offer and the Underwriting Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

POSSIBLE DILUTION EFFECT OF THE OPEN OFFER

The table below depicts the shareholding structures of the Company (for illustrative purpose only): (i) as at the Latest Practicable Date; (ii) immediately after completion of the Open Offer assuming (a) all Qualifying Shareholders have fully subscribed for their entitlements under the Open Offer; and (b) no Qualifying Shareholders subscribed for their entitlements under the Open Offer except for the Underwriter.

(i) assuming no exercise of the outstanding Share Options and Convertible Notes on or before the Record Date

Shareholders	At the Latest Practicable Date		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders have fully subscribed for their entitlements under the Open Offer)		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders subscribed for their entitlements under the Open Offer except for the Underwriter, Mr. Lie and parties acting in concert with any of them)	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
The Underwriter, Mr. Lie and parties acting in concert with any of them *(Note 1)*	1,623,440,000	25.55	2,435,160,000	25.55	4,799,721,448	50.37
Directors/Ex-Directors						
Xu Gang *(Note 2)*	996,000	0.02	1,494,000	0.02	996,000	0.01
Huang Zhixiong *(Note 3)*	11,356,000	0.18	17,034,000	0.18	11,356,000	0.12
Ye Weiping *(Note 4)*	518,000,000	8.15	777,000,000	8.15	518,000,000	5.44
Public Shareholders	4,198,770,897	66.10	6,298,156,345	66.10	4,198,770,897	44.06
Total	6,352,562,897	100.00%	9,528,844,345	100.00%	9,528,844,345	100.00%

(ii) assuming the exercise of the outstanding Share Options and Convertible Notes in full on or before the Record Date

Shareholders	At the Latest Practicable Date		Immediately after completion of the Open Offer (assuming all Qualifying Shareholders have fully subscribed for their entitlements under the Open Offer)		Immediately after completion of the Open Offer (assuming no Qualifying Shareholders subscribed for their entitlements under the Open Offer except for the Underwriter, Mr. Lie and parties acting in concert with any of them)	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
The Underwriter, Mr. Lie and parties acting in concert with any of them *(Note 1)*	1,623,440,000	25.55	2,435,160,000	24.65	4,916,721,448	49.77
Directors/Ex-Directors						
Xu Gang *(Note 2)*	996,000	0.02	1,494,000	0.02	996,000	0.01
Huang Zhixiong *(Note 3)*	11,356,000	0.18	17,034,000	0.18	11,356,000	0.11
Ye Weiping *(Note 4)*	518,000,000	8.15	777,000,000	7.86	518,000,000	5.24
Zhang Xinyu *(Note 5)*	–	–	60,000,000	0.61	40,000,000	0.40
Public Shareholders						
Holder(s) of the Convertible Notes	–	–	192,000,000	1.94	128,000,000	1.30
Holders of Share Options	–	–	99,000,000	1.00	66,000,000	0.67
Other public Shareholders	4,198,770,897	66.10	6,298,156,345	63.74	4,198,770,897	42.50
Total	6,352,562,897	100.00%	9,879,844,345	100.00%	9,879,844,345	100.00%

Notes:

1. 420,000,000 Shares are held by the Underwriter, 23,624,000 Shares are held by Golden Ocean and 1,179,816,000 Shares are held by Mr. Lie. Both the Underwriter and Golden Ocean are wholly-owned by Mr. Lie. Thus, Mr. Lie is deemed to be interested in the Shares held by the Underwriter and Golden Ocean.

2. Mr. Xu Gang is an executive Director. The 996,000 Shares include 48,000 Shares owned by the spouse of Mr. Xu Gang.

3. Mr. Huang Zhixiong is an independent non-executive Director. The 11,356,000 Shares are owned by the spouse of Mr. Huang Zhixiong.

4. Ms. Ye Weiping was an ex-executive Director.

5. Mr. Zhang Xinyu is an executive Director.

The Open Offer offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company. For those Qualifying Shareholders who take up their entitlements in full under the Open Offer, their shareholding interests in the Company will remain unchanged after the Open Offer.

For Qualifying Shareholders who do not take up in full their assured entitlements under the Open Offer should note that their shareholdings in the Company will be diluted upon completion of the Open Offer. As shown in the tables above, assuming that none of the Qualifying Shareholders has subscribed for the Open Offer, the percentage of shareholding of the public Shareholders will be reduced (i) from approximately 66.10% as at the Latest Practicable Date to approximately 44.06%, assuming no exercise of the outstanding Share Options and Convertible Notes on or before the Record Date; and (ii) from approximately 66.10% as at the Latest Practicable Date to approximately 42.50%, assuming the exercise of the outstanding Share Options and Convertible Notes in full on or before the Record Date.

Notwithstanding the potential dilution to the Independent Shareholders' proportional shareholding interests in the Company as discussed above, having taking into account that:

(a) the Independent Shareholders are given the opportunity to express their view on the terms of the Open Offer and the Underwriting Agreement through their votes at the EGM;

(b) the Qualifying Shareholders have their choice of whether to accept the Open Offer or not;

(c) the Open Offer offers the Qualifying Shareholders an opportunity to subscribe for their pro-rata Offer Shares for the purpose of maintaining their respective existing shareholding interests in the Company at a relatively low price as compared to the prevailing market prices of the Shares; and

(d) those Qualifying Shareholders who choose to accept the Open Offer in full can maintain their respective existing shareholding interests in the Company after the Open Offer,

we are of the view that the potential dilution effect on the existing shareholding interest of the Independent Shareholders, which may only result when the Qualifying Shareholders do not subscribe for their pro-rata Offer Shares, is acceptable.

LOAN CAPITALISATION

As stated in the Loan Announcement, the Company has entered into the Loan Agreement with Mr. Lie, pursuant to which Mr. Lie has agreed to lend to the Company a Loan of HK$100,000,000 for a period of one year at an interest rate of 5% per annum. As at the Latest Practicable Date, the entire Loan amount has been fully utilised by the Group as partial settlement for the consideration of the acquisition of Guangdong Bluesea and its general working capital and as deposit payment of the acquisition of CNCC (as defined in the Letter from the Board). As stated in the Announcement, as at the date of the Underwriting Agreement, the Company was indebted to Mr. Lie with the Loan in the principal sum of HK$100,000,000 together with interest accrued thereon. As at 31 July 2015, the interest accrued on the Loan amounted to HK$0.50 million.

Pursuant to the Underwriting Agreement, Mr. Lie and the Company have agreed that the aggregate Subscription Price required to be paid by Mr. Lie and his associates under their subscription and/or underwriting obligation of the Irrevocable Undertakings and the Underwriting Agreement will be deemed to be paid by way of the full capitalisation of the Loan of HK$100,000,000 in first place and the remaining balance of the Subscription Price (if any) will be settled in cash. The Irrecoverable Undertakings of Mr. Lie is approximately HK$308.45 million. Therefore, the remaining balance of the Irrecoverable Undertakings of approximately HK$208.45 million and the Underwritten Shares to be taken up by the Qualifying Shareholders will be settled in cash. The completion of the Loan Capitalisation is subject to the same conditions of the Open Offer. Completion of the Loan Capitalisation shall take place simultaneously with the issue of the Offer Shares by the Company pursuant to the terms of the Open Offer.

Having considered the financial position of the Group as detailed in the sub-section headed "Business overview of the Group" under the section headed "Principal Factors and Reasons Considered" above, in particular, (i) the Group recorded continual losses for the last two financial period/year ended 31 December 2014; (ii) the Group recorded a net current liabilities position of approximately HK$194.467 million as at 30 June 2015; and (iii) bank balances of approximately HK$60.88 million as at 30 June 2015, we consider that the Group may not be able to repay the Loan unless the Group obtains new funds from equity fund raising or debt financing. We concur with the Management's view that the Loan Capitalisation will, on one hand, alleviate the repayment pressure of the Loan on the Group without cash outlay and thereby strengthening the Group's financial position.

Upon discussion with the Management, the Management advised us that they had considered alternative means of repaying the Loan other than Loan Capitalisation, such as by way of bank borrowings and equity financing. Given the current financial performance and position of the Group (in particular, the continual loss-making position for the last two financial period/year ended 31 December 2014), the Management believes that it is difficult for the Group to obtain any borrowing from banks at reasonable terms. Furthermore, bank borrowing will inevitably increase the interest burden of the Company. In respect of equity financing, the current structure of the Open Offer will need to be adjusted to increase the proceeds raised for the repayment of the Loan. As discussed with the Management, the current structure of the Open Offer was arrived at arm's length negotiation between the Company and the Underwriter. As such, the Management is of the view that the Loan Capitalisation is a more desirable means for the Group to settle the Loan.

As discussed with the Management, the Directors consider that the Loan Capitalisation will enable the Group to repay the Loan without any cash outflow and will allow the Group to reduce its gearing level. We therefore concur with the Directors that the Loan Capitalisation is in the interests of the Company and the Shareholders as a whole.

WHITEWASH WAIVER

As at the Latest Practicable Date, the Underwriter, Mr. Lie and parties acting in concert with any of them hold 1,623,440,000 Shares, representing approximately 25.55% of the existing issued share capital of the Company.

As stated in the Letter of the Board, in the event that the Underwriter is called upon to subscribe for the Underwritten Shares in full pursuant to its obligations under the Underwriting Agreement, the aggregate shareholding of the Underwriter, Mr. Lie and parties acting in concert with them upon completion of the Open Offer would increase from approximately 25.55% to approximately 50.37% immediately after the completion of the Open Offer (assuming no exercise of the outstanding Shares Options and Convertible Notes on or before the Record Date). This would therefore give rise to a mandatory general offer obligation on the part of the Underwriter, Mr. Lie and parties acting in concert with any of them under Rule 26 of the Takeovers Code unless the Whitewash Waiver is obtained.

The Underwriter has made an application for the Whitewash Waiver to the Executive pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Executive has indicated that it will grant the Whitewash Waiver, subject to, among other things, the approval of the Independent Shareholders at the EGM by way of poll, in which the Underwriter, Mr. Lie and the parties acting in concert with any of them will abstain from voting at the EGM on the relevant resolution(s). If the Whitewash Waiver is not granted by the Executive or the Whitewash Waiver is not approved at the EGM, the Open Offer will not become unconditional and will not proceed.

Based on our analysis of the terms of the Open Offer, we consider that the Open Offer is in the interests of the Company and the Shareholders as a whole. If the Whitewash Waiver is not approved by the Independent Shareholders at the EGM, the Open Offer will not proceed and the Company will not be able to raise the proceed from the completion of the Open Offer to undertake all the business expansion and development as stated in the section headed "Reasons for the Open Offer and use of proceeds" to improve the financial performance of the Group. Furthermore, as stated in the section headed "Other financing alternatives available to the Group", the Company is not able to raise funds via bank borrowing without exerting further financial burden on the Company and the terms may not be favourable to the Company. In terms of best efforts placements, it will not benefit the Qualifying Shareholders as it is placed only to certain placees, which will dilute the shareholding of existing Shareholders. Accordingly, for the purposes of implementing the Open Offer, we consider that the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

POSSIBLE FINANCIAL EFFECTS OF THE OPEN OFFER

Effect on net tangible asset

With reference to the unaudited pro forma statement of consolidated net tangible assets of the Group attributable to owners of the Company as set out in the Appendix II to the Circular, the unaudited pro forma consolidated net tangible liabilities value of the Group attributable to the owners of the Company was approximately HK$184.96 million as at 30 June 2015. After taking into account the net proceeds from the Open Offer, the unaudited pro forma consolidated net tangible liabilities value of the Group attributable to the owners of the Company will improve to net tangible assets of approximately HK1,135.69 million.

The unaudited pro forma consolidated net tangible liabilities of the Group per Share as at 30 June 2015 was approximately HK$0.03 per Share after the Open Offer. Upon completion of the Open Offer, the total number of Shares shall be increased to 9,528,844,345 Shares assuming no exercise of the outstanding Share Options and Convertible Notes on or before the Record Date. The unaudited pro forma consolidated net tangible assets per Share attributed to the owners of the Company will be approximately HK$0.12 per Share.

Effect on working capital and liquidity

The net proceeds from the Open Offer is estimated to be approximately HK$1,090.82 million assuming no exercise of the outstanding Share Options and Convertible Notes on or before the Record Date and the working capital will be increased by approximately HK$1,090.82 million, which will improve the Group's liquidity position.

Based on the foregoing, although the net tangible assets value per Share of the Group attributed to the equity shareholders of the Company will be diminished, the Open Offer will enhance the net assets value of the Group and improve the liquidity position of the Group. Hence, we are of the view that the Open Offer is in the interest of the Company and the Shareholders as a whole.

RECOMMENDATION

Having taken into consideration of the following principal factors and reasons regarding the Open Offer including:

(a) The net proceeds of the Open Offer will be used to finance the Group's: (i) development of the cloud computing business; (ii) setting up of the Internet Data Centre in the PRC; (iii) WiFi services and setting up access point WiFi network in Guangdong province of the PRC; (iv) cross-border e-commerce business; (v) logistics related business; and (vi) P2P lending platform business;

(b) the loss making position of the Company for FP2013 and FY2014, the negative shareholders' equity as at 31 December 2014 and negative net tangible assets value as at 30 June 2015;

(c) the Open Offer would be a preferred method of equity financing as it will allow all the Qualifying Shareholders to maintain their proportionate interests in the Company and to participate in the future growth and development of the Group;

(d) the discount of the Subscription Price falls within the range of the discount of the subscription prices of the Open Offer Comparables;

(e) the major terms and conditions of the Underwriting Agreement is in line with the market practice;

(f) the dilution effect is not prejudicial to the Independent Shareholders' interests in the Company if they choose to subscribe for their full entitlement of the Offer Shares under the Open Offer;

(g) the Open Offer will enhance the net assets value of the Group and improve the liquidity position of the Group;

(h) the Loan Capitalisation will enable the Group to repay the Loan without cash outflow and will allow the Group to reduce its gearing level; and

(i) in the event that the Whitewash Waiver is not granted by the Executive, the Open Offer will not become unconditional and will not proceed, we are of the view that: (i) the terms of the Open Offer; (ii) the Loan Capitalisation; (iii) the Whitewash Waiver; and (iv) the Underwriting Commission Arrangement, are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution(s) to be proposed at the EGM to approve (i) the Open Offer; (ii) the Loan Capitalisation; (iii) the Whitewash Waiver; and (iv) the Underwriting Commission Arrangement.

Yours faithfully,
For and on behalf of
Opus Capital Limited

Alvin Lai	**Koh Kwai Yim**	**Pang Tsz Chung**
Chief Executive Officer	*Executive Director*	*Associate Director*

Mr. Alvin Lai is the Chief Executive Officer of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Mr. Lai has over 15 years of financial industry, investments, corporate finance and legal experience in Asia and Australia. Mr. Lai is a qualified legal practitioner in New South Wales, Australia. Mr. Alvin Lai has acted as financial adviser and/or independent financial adviser to many companies and transactions involving fundraising and/or mergers and acquisition in Asia.

Ms. Koh Kwai Yim is the Executive Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. Ms. Koh has over 15 years of corporate finance experience in Asia and has participated in and completed various financial advisory and independent financial advisory transactions.

Mr. Pang Tsz Chung is the Associate Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activities. Mr. Pang has participated in and completed various advisory transactions including those involving companies listed in Hong Kong in respect of the Takeovers Code for over 8 years.

1. FINANCIAL SUMMARY

Financial information of the Group for the year ended 30 June 2012, the eighteen months ended 31 December 2013, the year ended 31 December 2014 and the six months ended 30 June 2015 are disclosed in the annual reports of the Company for the year ended 30 June 2012 (pages 38 to 182), the eighteen months ended 31 December 2013 (pages 45 to 214) and the year ended 31 December 2014 (pages 53 to 230) and the interim report for the six months ended 30 June 2015 (pages 2 to 23). These annual reports are published on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.neo-telemedia.com).

Set out below is a summary of the financial results of the Group for the year ended 30 June 2012, the 18 months ended 31 December 2013, the year ended 31 December 2014 and the six months ended 30 June 2015 as extracted from annual reports of the Company for the year ended 30 June 2012, the 18 months ended 31 December 2013 and the year ended 31 December 2014 and the interim report for the six months ended 30 June 2015 respectively. Save as disclosed on the face of the financial information below, there were no items which were extraordinary or exceptional because of size, nature or incidence for the consolidated statement of comprehensive income of the Group for the year ended 30 June 2012, the 18 months ended 31 December 2013 and the year ended 31 December 2014 and the six months ended 30 June 2015.

The financial statements for the financial year ended 30 June 2012 were audited by ZHONGLEI (HK) CPA Company Limited. The financial statements for the 18 months ended 31 December 2013 and the financial year ended 31 December 2014 were audited by HLB Hodgson Impey Cheng Limited. There were audit qualifications contained in the auditor's reports in respect of the financial years ended 30 June 2012 and 31 December 2014. There was no audit qualifications contained in the auditor's report in respect of the financial period ended 31 December 2013. The financial statements for the six months ended 30 June 2015 were unaudited.

The following is a summary of the published consolidated results and of the assets and liabilities of the Group:

RESULTS

	6 months ended 30 June 2015 (unaudited)	12 months ended 31 December 2014 (audited)	18 months ended 31 December 2013 (audited)	12 months ended 30 June 2012 (audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	17,331	34,550	61,067	100,180
Cost of sales	(10,609)	(23,628)	(29,900)	(9,396)
Gross profit	6,722	10,922	31,167	90,784
Other income and gains	706	755	20,528	3,180
Selling and marketing costs	(2,479)	(2,718)	(5,270)	(1,741)
Administrative and other expenses	(35,890)	(118,345)	(124,706)	(112,489)
Impairment loss recognised in respect of goodwill	–	(254,966)	(301,997)	(541,458)
Net loss on de-consolidation of a subsidiary	–	(174,024)	–	–
Change in fair value of contingent consideration receivable	–	–	–	33,972
Change in fair value of contingent consideration payable	–	–	93,587	183,415
Impairment loss recognised in respect of intangible asset	–	(84,802)	(23,769)	(109,316)
Loss on early redemption of convertible notes	–	–	–	(1,596)
Change in fair value of derivative financial assets	8,219	(711)	(5,495)	–
Change in fair value of convertible notes	–	–	–	702
Share of loss of an associate	–	–	(335)	–
Loss from operation	(22,722)	(623,889)	(316,290)	(454,547)
Finance costs	(11,744)	(23,373)	(11,986)	(1,305)
Loss before taxation	34,466	(647,262)	(328,276)	(455,852)
Income tax credit/(expense)	2,542	14,770	2,758	35,630
Net loss for the year/period	(31,924)	(632,492)	(325,518)	(420,222)

	6 months ended 30 June 2015	12 months ended 31 December 2014	18 months ended 31 December 2013	12 months ended 30 June 2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
(Loss)/profit for the year/period attributable to:				
Owners of the Company				
– from continuing operations	(20,535)	(567,394)	(316,069)	(454,256)
– from discontinued operation	–	–	333	(10,897)
	(20,535)	(567,394)	(315,736)	(465,153)
Non-controlling interests				
– from continuing operations	(11,389)	(65,098)	(9,449)	34,034
– from discontinued operation	–	–	–	–
	(11,389)	(65,098)	(9,449)	34,034
	(31,924)	(632,492)	(325,185)	431,119
Total comprehensive loss attributable to:				
Owners of the Company	(19,632)	(568,242)	(314,811)	(464,197)
Non-controlling interests	(11,278)	(65,578)	(7,613)	35,247
	(30,910)	(633,820)	(322,424)	428,950
	HK Cents	*HK Cents*	*HK Cents*	*HK Cents*
Loss per share				
From continuing and discontinued operations				
Basic	(0.35)	(21.22)	(13.08)	(21.49)
Diluted	(0.35)	(21.22)	(13.08)	(21.49)
From continuing operations				
Basic	(0.35)	(21.22)	(13.09)	(20.98)
Diluted	(0.35)	(21.22)	(13.09)	(20.98)
Amount absorbed by dividend	Nil	Nil	Nil	Nil
Dividend per share	Nil	Nil	Nil	Nil

ASSETS AND LIABILITIES

	As at 30 June	As at 31 December		As at 30 June
	2015	2014	2013	2012
	(unaudited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	238,958	99,259	628,598	440,054
Current assets	139,623	48,516	114,890	254,265
Current liabilities	(334,090)	(95,272)	(58,318)	(73,494)
Net current (liabilities)/assets	(194,467)	(46,756)	56,372	180,771
Non-current liability	(29,142)	(155,572)	(183,606)	(9,772)
Net (liabilities)/assets	15,349	(103,069)	501,564	611,053

Financial year ended 30 June 2012

The qualification contained in the auditors' report prepared by ZHONGLEI (HK) CPA Company Limited in respect of the year ended 30 June 2012 are set below:

(1) Limitation of scope on the impairment assessment of other receivables

Included in the Group's gross prepayments, deposits and other receivables of approximately HKD94,273,000 as at 30 June 2012 were gross other receivable of approximately HKD33,972,000 (equivalent to approximately RMB27,628,000) due from an independent third party arising from the failure to meet the profit guarantee for Smart Long Limited and its subsidiaries for the year ended 31 December 2011 as disclosed in Note 28(b) and Note 39(a) to the consolidated financial statements for the year ended 30 June 2012. The directors of the Company are of the view that the Group is able to recover the outstanding balance, and therefore no impairment had been provided on such balance. However, we were unable to obtain sufficient appropriate audit evidence we consider necessary in order to assess whether such receivable could be recovered in full or to determine the amount of impairment, if any. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to any impairment loss had been occurred against these receivable as at 30 June 2012.

Any adjustment to the amount of the above receivable found to be necessary would affect the Group's net assets as at 30 June 2012 and the Group's loss for the year then ended and related note disclosures to the consolidated financial statements.

(2) Limitation of scope on the impairment assessment of loan and loan interest receivables

Included in the Group's loan and loan interest receivables of HKD56,349,000 as at 30 June 2012 was a loan to an independent third party with a principal amount of approximately HKD10,821,000 (equivalent to RMB8,800,000) and interest receivable of approximately HKD37,000 (equivalent to approximately RMB30,000) as details disclosed in Note 26(c) to the consolidated financial statements for the year ended 30 June 2012. The directors of the Company are of the view that the Group is able to re-cover the outstanding balances, and therefore no impairment had been provided on such balance. However, we were unable to obtain sufficient appropriate audit evidence we consider necessary in order to assess whether such loan and loan interest receivables could be recovered in full or to determine the amount of impairment, if any. There were no practical alternative audit procedures that we could perform to satisfy ourselves as to any impairment loss had been occurred against these loan and loan interest receivables as at 30 June 2012.

Any adjustment to the amount of the above loan and loan interest receivables found to be necessary would affect the Group's net assets as at 30 June 2012 and the Group's loss for the year then ended and related note disclosures to the consolidated financial statements.

Financial period ended 31 December 2013

There was no qualification contained in the auditors' report prepared by HLB Hodgson Impey Cheng Limited in respect of the 18 months ended 31 December 2013.

Financial year ended 31 December 2014

The qualification and/or disclaimer contained in the auditors' report prepared by HLB Hodgson Impey Cheng Limited in respect of the year ended 31 December 2014 are set below:

A) De-consolidation of a subsidiary

As set out in note 3 to the consolidated financial statements, due to i) the non-cooperation of the key management of CERNET Wifi Technology (Beijing) Company Limited ("CERNET Wifi"), and ii) the non-cooperation of the holder of 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 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. The de-consolidation of CERNET Wifi had resulted in a net loss on de-consolidation of the subsidiary of approximately HK$174,024,000.

In the opinion of the directors of the Company, the consolidation financial statements at 31 December 2014 and for the year then ended prepared on the afore-mentioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid incomplete books and records of CERNET Wifi. However, the de-consolidation of CERNET Wifi from the beginning of the year is a departure from the requirement of Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements".

We have not been provided with sufficient information and explanations on the de-consolidation of CERNET Wifi and there were no alternative audit procedures that we could perform to satisfy ourselves as to whether it was appropriate to de-consolidate the assets and liabilities and cease to record results of operations of CERNET Wifi from the consolidated financial statements from the beginning of the financial year ended 31 December 2014. In addition, due to the unavailability of complete sets of books and records and the lack of information on the assets and liabilities of CERNET Wifi, we were unable to obtain sufficient appropriate audit evidences to determine whether the net loss on de-consolidation of a subsidiary of approximately HK$174,024,000, which were charged to the Group's loss for the year ended 31 December 2014, was free from material misstatement.

B) Appropriateness of using going concern basis in preparing the consolidated financial statements

The Group incurred loss of approximately HK$632,492,000 for the year ended 31 December 2014 and as of that date, the Group's current liabilities exceeded its current assets by approximately HK$46,756,000, while net liabilities of the Group amounted to HK$103,069,000. These conditions, along with other matters as set forth in note 3 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the favourable outcomes of the step being taken by the directors of the Company describe in note 3 to the consolidated financial statements. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and therefore do not include any adjustments relating to the realisation and classification of non-current assets that may be necessary if the Group is unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustment may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

In the absence of sufficient documentary evidence, we were unable to ascertain whether the assumption made by the directors of the Company in the preparation of the consolidated financial statements on a going concern basis were fair and reasonable and, accordingly, we were unable to satisfy ourselves that the use of the going concern basis was appropriate. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness using the going concern assumption, which might have a consequential significant effect on the Group's net liabilities as at 31 December 2014 and loss of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements.

Any adjustments that might have been found to be necessary in respect of the above matters, including any related tax impact, would have a significant effect on the Group's loss and cash flows for the year ended 31 December 2014, the state of the Group's affairs as at 31 December 2014 and the related disclosures thereof in the consolidated financial statements.

2. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six and three months ended 30 June 2015

		For the six months ended 30 June		For the three months ended 30 June	
		2015	2014	2015	2014
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Notes	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
			(Restated)		(Restated)
Turnover	*3*	17,331	19,667	14,919	9,904
Cost of sales		(10,609)	(9,286)	(6,185)	(6,022)
Gross profit		6,722	10,381	8,734	3,882
Other income and gains		706	1,210	167	32
Change in fair value of derivative financial assets		8,219	–	8,219	–
Selling and marketing costs		(2,479)	(1,270)	(1,480)	(693)
Administrative and other expenses		(35,890)	(47,016)	(24,056)	(27,890)
Finance costs	*4*	(11,744)	(12,133)	(6,078)	(5,976)
Loss before tax	*5*	(34,466)	(48,828)	(14,494)	(30,645)
Income tax credit	*6*	2,542	2,675	1,408	1,338
Loss for the period		(31,924)	(46,153)	(13,086)	(29,307)
Loss for the period attributable to:					
Owners of the Company		(20,535)	(40,837)	(6,191)	(27,500)
Non-controlling interests		(11,389)	(5,316)	(6,895)	(1,807)
Loss per share	*8*				
– basic *(in HK cent)*		(0.35)	(0.79)	(0.10)	(0.53)
– diluted *(in HK cent)*		(0.35)	(0.79)	(0.10)	(0.53)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six and three months ended 30 June 2015

	For the six months ended 30 June		For the three months ended 30 June	
	2015	**2014**	**2015**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Restated)		(Restated)
Loss for the period	(31,924)	(46,153)	(13,086)	(29,307)
Other comprehensive income/(loss), net of income tax				
Items that may be subsequently reclassified to profit or loss:				
Exchange differences on translation of foreign operations	1,014	(2,345)	537	(279)
Total comprehensive loss for the period	(30,910)	(48,498)	(12,549)	(29,586)
Total comprehensive loss for the period attributable to:				
Owners of the Company	(19,632)	(42,810)	(5,671)	(27,653)
Non-controlling interests	(11,278)	(5,688)	(6,878)	(1,933)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	Notes	30 June 2015 HK$'000 (Unaudited)	31 December 2014 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	9	34,596	11,957
Interest in an associate		–	–
Goodwill	10	58,720	6,403
Intangible assets	11	145,642	59,206
Deposit for acquisition of property, plant and equipment		–	21,693
Total non-current assets		238,958	99,259
Current assets			
Inventories		1,092	277
Trade receivables	12	1,137	891
Prepayment, deposits and other receivables		66,460	15,680
Amount due from a de-consolidated subsidiary		1,833	–
Derivative financial assets		8,219	–
Cash and cash equivalents		60,882	31,668
Total current assets		139,623	48,516
Current liabilities			
Trade payables	13	7,404	10,326
Other payables and accruals	14	103,188	84,870
Receipts in advance		280	76
Loan from a substantial shareholder	15	70,064	–
Convertible notes	16	152,763	–
Tax liabilities		391	–
Total current liabilities		334,090	95,272
Net current liabilities		(194,467)	(46,756)
Total assets less current liabilities		44,491	52,503

	Notes	30 June 2015 HK$'000 (Unaudited)	31 December 2014 HK$'000 (Audited)
Non-current liabilities			
Convertible notes	16	–	148,768
Deferred tax liabilities	17	29,142	6,804
Total non-current liabilities		29,142	155,572
Net assets/(liabilities)		15,349	(103,069)
Capital and reserves			
Share capital	18	615,584	275,492
Reserves		(625,323)	(406,934)
Equity attributable to owners of the Company		(9,739)	(131,442)
Non-controlling interests		25,088	28,373
Total equity		15,349	(103,069)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Share options reserve *HK$'000*	Warrant reserve *HK$'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 2014 (audited)	255,492	1,024,031	47,084	14,600	7,131	1,908	7,375	(960,545)	397,076	104,488	501,564
Loss for the period			–	–	–	–	–	(40,837)	(40,837)	(5,316)	(46,153)
Other comprehensive loss:											
Exchange difference on translation of foreign operations	–	–	–	–	–	(1,973)	–	–	(1,973)	(372)	(2,345)
Total comprehensive loss for the period	–	–	–	–	–	(1,973)	–	(40,837)	(42,810)	(5,688)	(48,498)
Share options lapsed	–	–	(26,427)	–	–	–	–	26,427	–	–	–
Placing of shares	20,000	19,723	–	–	–	–	–	–	39,723	–	39,723
At 30 June 2014 (unaudited)	275,492	1,043,754	20,657	14,600	7,131	(65)	7,375	(974,955)	393,989	98,800	492,789
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
NET CASH FLOWS (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(35,112)	23,804
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(18,609)	(1,810)
NET CASH FLOWS GENERATED FROM FINANCING ACTIVITIES	82,624	39,723
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,903	61,717
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	31,668	10,966
Effect on foreign exchange rate changes	311	(83)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	60,882	72,600
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:		
Bank balance and cash	60,882	72,600

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the three months and six months ended 30 June 2015

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, provision of transmedia advertising services and operation of peer to peer lending platform business in the PRC.

2. Basis of preparation and accounting policies

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 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 2014.

The accounting policies and methods of computation used in the condensed consolidated interim financial statements for the six months ended 30 June 2015 are the same as those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2014. 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.

Going Concern

The Group incurred loss of approximately HK$31,924,000 for the six months ended 30 June 2015 and as of that date, the Groups current liabilities exceeded its current assets by approximately HK$194,467,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The Company has been taking active steps to improve the liquidity position. These steps included (1) the Company is considering various alternative to strengthen the capital base of the Company through various fund raising exercises, including the proposed open offer as disclosed in note 23 to the condensed consolidated financial statements; and (2) the Company continues to take action to tighten cost controls over various operating expenses, with an aim in attaining profitable and positive cash flow operations.

In light of the measures and arrangements as described above, the Company has concluded that the Group will have sufficient working capital to meet its financial obligations as and when they fall due. Accordingly, it is appropriate to prepare these consolidated financial statements on a going concern basis. The validity of the going concern assumption, on which the consolidated financial statements are prepared, is dependent on the favourable outcomes of the steps mentioned in above. The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and therefore do not include any adjustments relating to the realisation and classification of non-current assets that may be necessary if the Group is unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realized other than at the amounts at which they are currently carried in the condensed consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

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. However, the de-consolidation of CERNET Wifi from the beginning of the year was not in compliance with the requirements of Hong Kong Financial Reporting Standard 10 "Consolidated Financial Statements".

The comparative figures of the unaudited condensed consolidated results have not been restated and the previous results of CERNET Wifi for the period from 1 January to 30 June 2014 were included in the comparative figure, based on the books and records maintained by CERNET Wifi at the time.

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, from continuing operations, is as follows:

	For the six months ended 30 June		**For the three months ended 30 June**	
	2015	**2014**	**2015**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sale of telecommunication products and services	13,729	19,101	11,328	9,770
Transmedia advertising services	164	566	153	134
Peer to peer (P2P) lending platform	3,438	–	3,438	–
	17,331	19,667	14,919	9,904

* *For identification purposes only*

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 from continuing operations under HKFRS 8 are as follows:

– Sale of telecommunication products and services

– Transmedia advertising services

– P2P lending platform

(a) *Segment revenues and results*

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

	Sale of telecommunication products and services For the six months ended 30 June		Transmedia advertising services For the six months ended 30 June		P2P lending platform For the six months ended 30 June		Total For the six months ended 30 June	
	2015	2014	2015	2014	2015	2014	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Turnover	13,729	19,101	164	566	3,438	–	17,331	19,667
Segment results	(14,135)	(9,971)	(9,405)	(7,260)	1,200	–	(22,340)	(17,231)
Interest income							306	36
Change in fair value of derivative financial asset							8,219	–
Unallocated corporate expenses							(8,907)	(19,500)
Finance costs							(11,744)	(12,133)
Loss before tax							(34,466)	(48,828)
Income tax credit							2,542	2,675
Loss for the period							(31,924)	(46,153)

(b) Segment assets and liabilities

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

	Sale of telecommunication products and services		Transmedia advertising services		P2P lending platform		Total	
	30 June 2015	31 December 2014	30 June 2015	31 December 2014	30 June 2015	31 December 2014	30 June 2015	31 December 2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)	(Unaudited)	(Audited)
Segment assets	261,222	121,245	6,361	15,059	67,709	–	335,292	136,304
Unallocated corporate assets							43,289	11,471
Total assets							378,581	147,775
Segment liabilities	50,618	51,154	1,795	1,685	31,718	–	84,131	52,839
Unallocated corporate liabilities							279,101	198,005
Total liabilities							363,232	250,844

4. Finance costs

	For the six months ended 30 June		For the three months ended 30 June	
	2015	**2014**	**2015**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Effective interest on convertible notes	9,543	8,549	4,861	4,360
Interest on short-term loans	2,201	3,584	1,217	1,616
	11,744	12,133	6,078	5,976

5. Loss before tax

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

	For the six months ended 30 June		For the three months ended 30 June	
	2015	**2014**	**2015**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income	(306)	(36)	(165)	(4)
Depreciation of items of property, plant and equipment	2,883	4,569	1,472	2,296
Amortisation of intangible assets	11,930	16,835	7,227	8,419
Impairment loss recognised in respect of intangible assets	6,572	–	6,572	–

6. Income tax

	For the six months ended 30 June		For the three months ended 30 June	
	2015	**2014**	**2015**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax:				
– Hong Kong	–	–	–	–
– PRC	357	–	357	–
Deferred tax *(note 17)*	(2,899)	(2,675)	(1,765)	(1,338)
Total tax credit for the period	(2,542)	(2,675)	(1,408)	(1,338)

(a) Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits. No provision for Hong Kong profits tax had been made during the period as the Group did not generate any assessable profits arising during the period.

(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 2015 (2014: Nil).

8. Loss per share

The calculation of basic loss per share amounts is based on the loss for the six months ended 30 June 2015 of approximately HK$20,535,000 (six months ended 30 June 2014: HK$40,837,000) and the three months ended 30 June 2015 of approximately HK$6,191,000 (three months ended 30 June 2014: HK$27,500,000), attributable to equity holders of the Company, and the weighted average of the six months ended 30 June 2015 of approximately 5,819,598,000 (six months ended 30 June 2014: 5,182,770,000) and the three months ended 30 June 2015 of approximately 6,125,951,000 (three months ended 30 June 2014: 5,254,896,000) ordinary shares in issue during the period.

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible notes and the exercise of the Company's share options since it would result in an anti-dilutive effect on loss per share.

The weighted average number of ordinary shares for the purpose of basic loss per share has been adjusted for bonus issue that took place on 19 June 2015. Accordingly, the basic and diluted loss per share for the six and three months ended 30 June 2014 have been restated.

9. Property, plant and equipment

During the six months ended 30 June 2015, the Group completed the acquisition of four office units from a substantial shareholder and the related deposit for acquisition of approximately HK$21,693,000 has been transferred to property, plant and equipment. In addition, the Group spent approximately HK$143,000 (year ended 31 December 2014: HK$1,781,000) on acquisition of property, plant equipment, excluding property, plant and equipment acquired through acquisition of subsidiaries.

10. Goodwill

	HK$'000
Cost	
At 1 January 2015 (Audited)	1,110,719
Arising on acquisition of subsidiaries *(Note 19)*	52,317
At 30 June 2015 (Unaudited)	1,163,036
Accumulated impairment	
At 1 January 2015 (Audited) and 30 June 2015 (Unaudited)	1,104,316
Carrying values	
At 30 June 2015 (Unaudited)	58,720
At 31 December 2014 (Audited)	6,403

11. Intangible assets

During the six months ended 30 June 2015, the Group acquired intangible assets amounting to HK$100,947,000 through acquisition of subsidiaries. An impairment loss of HK$6,572,000 (2014: nil) in respect of lottery software development system and a technical know how technology was recognised during the current interim period due to suspension of Internet lottery sales in the PRC.

12. Trade receivables

	30 June 2015 *HK$'000* (Unaudited)	**31 December 2014** *HK$'000* (Audited)
Trade receivables	1,178	932
Less: accumulated allowance for doubtful debts	(41)	(41)
	1,137	891

The Group allows an average credit period of 90 days (31 December 2014: 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 2015	31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	662	333
31 to 60 days	475	539
61 to 90 days	–	–
Over 90 days	–	19
	1,137	891

13. Trade payables

	30 June 2015	31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables	7,404	10,326

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

	30 June 2015	31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 30 days	101	–
61 to 90 days	–	10,289
Over 91 days	7,303	37
	7,404	10,326

14. Other payables and accruals

	30 June 2015	31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Other payables	71,806	59,736
Accruals	31,382	25,134
	103,188	84,870

Included in the other payables is a short term loan of approximately HK$27,320,000 (31 December 2014: HK$27,320,000) obtained from an independent third party.

The loan carries a fixed interest rate at 1.2% per month and is unsecured, denominated in HK$ and repayable within one year from the end of the reporting period.

15. Loan from a substantial shareholder

During the six months ended 30 June 2015, the Company obtained a loan facility of HK$100,000,000 from a substantial shareholder. The loan is unsecured, interest bearing at 5% per annum and repayable within one year from the date of drawdown.

As at 30 June 2015, HK$70,064,000 has been utilised by the Company.

16. Convertible notes

During the six months ended 30 June 2015, no redemption of the convertible notes was made by the Company. At 30 June 2015, carrying amount of the convertible notes liability component of approximately HK$152,763,000 (31 December 2014: HK$148,768,000) with a principal amount of HK$160,000,000 (31 December 2014: HK$160,000,000) remained outstanding.

17. Deferred tax

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

	Intangible assets *HK$'000*
At 1 January 2014 (Audited)	41,336
De-consolidation of a subsidiary	(25,040)
Deferred tax credited to the consolidated statement of profit or loss and other comprehensive income during the period	(9,522)
At 31 December 2014 (Audited)	6,804
Acquisition of subsidiaries *(note 19(a))*	25,287
Deferred tax credited to the consolidated statement of profit or loss and other comprehensive income during the period *(note 6)*	(2,899)
At 30 June 2015 (Unaudited)	**29,142**

18. Share capital

	Par value per share *HK$*	Number of shares	Amount *HK$'000*
Authorised:			
At 31 December 2014 and 30 June 2015	0.1	10,000,000,000	1,000,000
Issued and fully paid:			
At 1 January 2015 (Audited)	0.1	2,754,920,793	275,492
Issue of shares on 1 April 2015 *(note a)*	0.1	303,000,000	30,300
Exercise of share options *(note b)*	0.1	20,000,000	2,000
Bonus Issue *(note c)*	0.1	3,077,920,793	307,792
At 30 June 2015 (Unaudited)	0.1	6,155,841,586	615,584

Notes:

(a) Pursuant to the terms of the agreement dated 30 January 2015 entered into between NEO Mobile Holdings Limited, a wholly owned subsidiary of the Company, and an independent third party in relation to Guangdong Wei Hai Xiao Yuan Mobile Network Company Limited * (《關於廣東蔚海校園移動網絡有限公司的協議》)(the "Agreement"), the Company issued 303,000,000 ordinary shares on 1 April 2015 upon the completion of transactions contemplated under the Agreement. The fair value of the ordinary shares issued was determined by the available published price of HK$0.425 each at the completion date of the acquisition on 1 April 2015.

(b) During the period, the Company issued 20,000,000 ordinary shares of par value of HK$0.10 at the exercise price of HK$0.628 per ordinary share upon exercise of the share options granted by the Company.

(c) Pursuant to the ordinary resolution duly passed at the extraordinary general meeting held on 5 June 2015, a bonus issue of 3,077,920,793 new shares were issued and credited as fully paid at par by way of capitalisation of an appropriate amount in the share premium account of the Company on 19 June 2015.

19. Acquisition of subsidiaries

(a) Acquisition of Bluesea Mobile Group

On 1 April 2015, the Group acquired the 100% interest in 廣東蔚海移動發展有限公司(Guangdong Bluesea Mobile Development Company Limited*) ("Bluesea Mobile") with a total consideration at fair value of HK$128,775,000. Bluesea Mobile and its subsidiaries (collectively referred to as "Bluesea Mobile Group") is principally engaged in the operation of a mobile and Internet commercial WIFI platform, an Internet data center and a cross-border e-commerce platform. And through its 70% owned subsidiary 廣東阿凡達財富投資管理有限公司 (Guangdong Avatar Wealth Investment Management Co., Ltd*) ("Avatar Wealth"), Bluesea Mobile Group also operates a peer to peer (P2P) lending platform business.

* *For identification purposes only*

The net assets acquired and the goodwill arising are as follows:

	Pre-acquisition carrying amount	Fair value adjustments	Fair value
	HK$'000	*HK$'000*	*HK$'000*
Property, plant and equipment	1,401		1,401
Intangible assets	–	100,947	100,947
Inventory	849		849
Trade receivables	3,980		3,980
Other receivables	1,055		1,055
Cash and cash equivalents	2,015		2,015
Trade payables	(389)		(389)
Other payables	(917)		(917)
Deferred taxation	–	(25,237)	(25,237)
Non-controlling interest	109	(5,188)	(5,079)
Total identifiable net assets acquired	8,103	70,522	78,625
Goodwill on acquisition			50,150
			128,775

Goodwill arose in the acquisition of Bluesea Mobile Group 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 Bluesea Mobile Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

The consideration of the acquisition is satisfied by way of allotment and issue of 303,000,000 new ordinary shares of the Company with par value of HK$0.10 each. The fair value of the ordinary shares issued was determined by referring to the published price of HK$0.425 per share at 1 April 2015.

Net Cash outflow arising on acquisition

	HK$'000
Consideration paid in cash	–
Less: Cash and cash equivalent balances acquired	2,015
	2,015

Acquisition related costs amounting to HK$406,000 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.

Included in the loss for the period is profit of HK$4,064,000 attributable to Bluesea Mobile Group. Revenue for the interim period includes HK$10,770,000 attributable to Bluesea Mobile Group.

Had the acquisition of Bluesea Mobile Group 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 2015 would have been HK$28,101,000, and the amount of the loss for the interim period from continuing operations would have been HK$27,860,000. 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 Bluesea Mobile Group 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.

(b) Acquisition of CNCC Logistics

On 25 June 2015, the Group acquired 43% of the entire equity interest of 中集物流裝備有限公司 (CNCC Logistics Equipment Co., Ltd*) ("CNCC Logistics") at a consideration of HK$3,505,000. CNCC logistics is principally engaged in the design, manufacture and sale of logistics equipment, such as containers, road transportation vehicles and emergency rescue equipment, and the provision of relevant technical advisory services.

* *For identification purposes only*

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

	HK$'000
Property, plant and equipment	146
Inventory	6
Other receivables	49
Cash and cash equivalents	3,024
Other payables	(115)
Non-controlling interest	(1,772)
Total identifiable net assets acquired	1,338
Goodwill on acquisition	2,167
	3,505

Goodwill arose in the acquisition of CNCC Logistics 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 CNCC Logistics. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

The consideration of the acquisition is satisfied by cash consideration of RMB2,765,000.

Net Cash outflow arising on acquisition

	HK$'000
Consideration paid in cash	(3,505)
Less: Cash and cash equivalent balances acquired	3,024
	(481)

Acquisition related costs amounting to HK$50,000 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.

Included in the loss for the period is profit of HK$40,000 attributable to CNCC Logistics. No revenue for the interim period was attributable to CNCC Logistics.

Had the acquisition of CNCC Logistics 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 2015 would have been HK$17,331,000, and the amount of the loss for the interim period from continuing operations would have been HK$32,658,000. 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 CNCC Logistics 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.

20. 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 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	Fair value as at 30 June 2015 (HK$'000)	31 December 2014 (HK$'000)	Fair value hierarchy	Valuation technique(s) and key input(s)
Derivative financial asset	8,219	–	Level 2	Derived from quoted bid prices in an active market

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.

21. Capital commitments

As at 30 June 2015, the Group had capital commitment of approximately HK$6,639,000 (31 December 2014: HK$6,639,000) and HK$10,145,000 (31 December 2014: nil) for acquisition of property, plant and equipment and capital contribution to a joint venture, respectively.

22. Connected and related party transactions

Related party balances

Details of the Group's outstanding balances with related parties are set out in note 15 to the condensed consolidated financial statements.

Related party transactions

Details of the Group's material related party transactions are set out in note 9 to the condensed consolidated financial statements.

23. Events after the reporting period

(a) On 11 August 2015, the Directors proposed to raise not less than HK$1,169,610,000 and not more than HK$1,214,070,000 before expenses by issuing not less than 3,077,920,793 offer shares and not more than 3,194,920,793 offer shares at the subscription price of HK$0.38 per offer share on the basis of one offer share for every two existing share held on record date and payable in full on acceptance ("Open Offer"). The proposed Open Offer is subject to approval by independent shareholders at the extraordinary general meeting of the Company and as at the date of this report, the proposed Open Offer has not been completed.

(b) On 31 July 2015, 中新聯融(深圳)信息服務有限公司(Zhongxin Lianrong (Shenzhen) Information Services Company Limited*) ("Zhongxin Lianrong"), a wholly-owned subsidiary of the Company, has entered into a joint venture agreement (the "JV agreement") with independent third parties pursuant to which a joint venture (the "JV Company") will be established to principally engage in provision of financial and business related services. The registered capital of the JV Company under the JV Agreement is RMB30,000,000 and Zhongxin Lianrong shall account for a capital contribution of RMB13,500,000. Upon the completion of the capital contribution, the JV Company shall be owned as to 45% by Zhongxin Lianrong and 55% by the other parties.

As at the date of this report, the establishment of the JV Company has not been completed.

* *For identification purposes only*

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	12 months ended 31 December 2014 HK$'000	18 months ended 31 December 2013 HK$'000
Continuing operations			
Turnover	7	34,550	61,067
Cost of sales		(23,628)	(29,900)
Gross profit		10,922	31,167
Other income and gains	8	755	20,528
Change in fair value of contingent consideration payable	45	–	93,587
Change in fair value of derivative financial assets	29	(711)	(5,495)
Selling and marketing costs		(2,718)	(5,270)
Administrative and other expenses		(118,345)	(124,706)
Impairment loss recognised in respect of intangible assets	21	(84,802)	(23,769)
Impairment loss recognised in respect of goodwill	20	(254,966)	(301,997)
Share of loss of an associate	19	–	(335)
Net loss on de-consolidation of a subsidiary	36	(174,024)	–
Finance costs	10	(23,373)	(11,986)
Loss before tax	12	(647,262)	(328,276)
Income tax credit	11	14,770	2,758
Loss for the year/period from continuing operations		(632,492)	(325,518)
Discontinued operation			
Profit for the year/period from discontinued operation, net of income tax	14	–	333
Loss for the year/period		(632,492)	(325,185)

	Notes	12 months ended 31 December 2014 HK$'000	18 months ended 31 December 2013 HK$'000
Other comprehensive (loss)/income for the year/period, net of tax			
Exchange difference on translating of foreign operations			
Exchange differences arising during the year/period		(973)	2,761
Reclassification adjustment relating to foreign operation de-consolidated during the year/period		(355)	–
		(1,328)	2,761
Total comprehensive loss for the year/period		(633,820)	(322,424)
(Loss)/profit for the year/period attributable to:			
Owners of the Company			
– from continuing operations		(567,394)	(316,069)
– from discontinued operation		–	333
		(567,394)	(315,736)
Non-controlling interests			
– from continuing operations		(65,098)	(9,449)
– from discontinued operation		–	–
		(65,098)	(9,449)
		(632,492)	(325,185)

	Notes	12 months ended 31 December 2014 HK$'000	18 months ended 31 December 2013 HK$'000
Total comprehensive loss attributable to:			
Owners of the Company		(568,242)	(314,811)
Non-controlling interests		(65,578)	(7,613)
		(633,820)	(322,424)
		HK Cents	*HK Cents*
Loss per share	*13*		
From continuing and discontinued operations			
Basic		(21.22)	(13.08)
Diluted		(21.22)	(13.08)
From continuing operations			
Basic		(21.22)	(13.09)
Diluted		(21.22)	(13.09)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Notes	31 December 2014 HK$'000	31 December 2013 HK$'000
Non-current assets			
Property, plant and equipment	18	11,957	46,594
Interests in an associate	19	–	–
Goodwill	20	6,403	329,017
Intangible assets	21	59,206	252,987
Deposit for acquisition of property, plant and equipment	42	21,693	–
		99,259	628,598
Current assets			
Inventories	24	277	614
Trade receivables	25	891	9,469
Prepayments, deposits and other receivables	23	15,680	93,130
Derivative financial assets	29	–	711
Cash and cash equivalents	26	31,668	10,966
		48,516	114,890
Current liabilities			
Trade payables	27	10,326	5,256
Other payables and accruals	28	84,870	47,463
Deposits received		–	149
Receipts in advances		76	162
Tax liabilities		–	5,288
		95,272	58,318
Net current (liabilities)/assets		(46,756)	56,572
Total assets less current liabilities		52,503	685,170

	Notes	31 December 2014 HK$'000	31 December 2013 HK$'000
Non-current liabilities			
Convertible notes	*29*	148,768	142,240
Deferred tax liabilities	*30*	6,804	41,366
		155,572	183,606
Net (liabilities)/assets		(103,069)	501,564
Capital and reserves			
Share capital	*31*	275,492	255,492
Reserves		(406,934)	141,584
Equity attributable to owners of the Company		(131,442)	397,076
Non-controlling interests		28,373	104,488
Total equity		(103,069)	501,564

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to owners of the Company											
	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Warrant reserve HK$'000	Convertible note reserve HK$'000	Capital and other reserve HK$'000 *(Note a)*	Translation reserve HK$'000	Statutory reserve HK$'000 *(Note b)*	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 July 2012	232,692	943,621	33,187	–	–	17,590	983	7,375	(678,992)	556,456	54,597	611,053
Loss for the period	–	–	–	–	–	–	–	–	(315,736)	(315,736)	(9,449)	(325,185)
Exchange differences on translation of financial statements arising during the period	–	–	–	–	–	–	925	–	–	925	1,836	2,761
Other comprehensive income for the period	–	–	–	–	–	–	925	–	–	925	1,836	2,761
Total comprehensive income/(loss) for the period	–	–	–	–	–	–	925	–	(315,736)	(314,811)	(7,613)	(322,424)
Release of capital reserve upon disposal of subsidiaries *(Note a)*	–	–	–	–	–	(17,590)	–	–	17,590	–	–	–
Non-controlling interests arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	57,504	57,504
Issue of shares in relation to the acquisition of subsidiaries *(Note 31)*	11,900	55,930	–	–	–	–	–	–	–	67,830	–	67,830
Recognition of the equity component of convertible notes in relation to the acquisition of subsidiaries	–	–	–	–	7,131	–	–	–	–	7,131	–	7,131
Recognition of equity – settled share based payment	–	–	30,490	–	–	–	–	–	–	30,490	–	30,490
Issue of unlisted warrants	–	–	–	14,600	–	–	–	–	–	14,600	–	14,600
Lapse of share options	–	–	(16,593)	–	–	–	–	–	16,593	–	–	–
Placing of shares	10,900	25,070	–	–	–	–	–	–	–	35,970	–	35,970
Share issuing expenses	–	(590)	–	–	–	–	–	–	–	(590)	–	(590)
At 31 December 2013	255,492	1,024,031	47,084	14,600	7,131	–	1,908	7,375	(960,545)	397,076	104,488	501,564

	Attributable to owners of the Company											
	Share capital	Share premium	Share options reserve	Warrant reserve	Convertible notes reserve	Capital and other reserve	Translation reserve	Statutory reserve	Accumulated losses	Sub-total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* *(Note a)*	*HK$'000*	*HK$'000* *(Note b)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2014	255,492	1,024,031	47,084	14,600	7,131	–	1,908	7,375	(960,545)	397,076	104,488	501,564
Loss for the year			–	–	–	–	–	–	(567,394)	(567,394)	(65,098)	(632,492)
Exchange difference on translating of foreign operations	–	–	–	–	–	–	(493)	–	–	(493)	(480)	(973)
Exchange differences arising during the year												
Reclassification adjustment relating to foreign operation de-consolidated during the year	–	–	–	–	–	–	(355)	–	–	(355)	–	(355)
Other comprehensive loss for the year	–	–	–	–	–	–	(848)	–	–	(848)	(480)	(1,328)
Total comprehensive loss for the year	–	–	–	–	–	–	(848)	–	(567,394)	(568,242)	(65,578)	(633,820)
Share options lapsed	–	–	(26,427)	–	–	–	–	–	26,427	–	–	–
Placing of shares	20,000	19,724	–	–	–	–	–	–	–	39,724	–	39,724
Warrants lapsed	–	–	–	(14,600)	–	–	–	–	14,600	–	–	–
De-consolidation of a subsidiary	–	–	–	–	–	–	–	–	–	–	(10,537)	(10,537)
At 31 December 2014	275,492	1,043,755	20,657	–	7,131	–	1,060	7,375	(1,486,912)	(131,442)	28,373	(103,069)

Notes:

(a) It represents the following:

(i) the difference between the aggregate nominal value of the share capital of B&S Group Limited and its subsidiaries acquired by the Company and the nominal value of the share capital of the Company issued as consideration in exchange of HK$157,000; and

(ii) the surplus of HK$17,433,000 arising from allotment and issue of 15,000 shares of USD1 each of B&S Group Limited, credited as fully paid to set off against the loans of HK$17,550,000 owing to the executive directors pursuant to the Group Reorganisation as set out in the Company's prospectus dated 29 July 2002.

The reserve was released upon the completion of disposal of B&S Group Limited and its subsidiaries on 28 September 2012.

(b) According to the relevant rules and regulations in the People's Republic of China ("**PRC**"), subsidiaries of Neo Telemedia Limited (the "**Company**") established in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to owners of these subsidiaries. Statutory surplus reserve can be used to set off previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	12 months ended 31 December 2014 *HK$'000*	18 months ended 31 December 2013 *HK$'000*
Operating activities		
Loss before tax		
– from continuing operations	(647,262)	(328,276)
– from discontinued operation	–	333
Adjustments for:		
Finance costs	23,373	11,986
Interest income	(65)	(8,068)
Depreciation of property, plant and equipment	5,771	11,316
Amortisation of intangible assets	34,874	36,359
Change in fair value of contingent consideration payable	–	(93,587)
Net loss on de-consolidation of a subsidiary	174,024	–
Gain on disposal of subsidiaries	–	(480)
Fair value change of derivative financial assets	711	5,495
Impairment loss recognised in respect of property, plant and equipment	454	–
Loss on disposal of property, plant and equipment	538	4,723
Impairment loss recognised in respect of goodwill	254,966	301,997
Impairment loss recognised in respect of intangible assets	84,802	23,769
Impairment loss recognised in respect of other receivables	26,190	15
Share of loss of an associate	–	335
Share-based payment expense	–	30,490
Operating cash flows before movements in working capital	(41,624)	(3,593)
Decrease in trade receivables	6,045	71,425
Decrease in prepayments, deposits and other receivables	48,675	11,229
Decrease in inventories	337	239
Increase/(decrease) in trade payables	5,070	(11,422)
Increase in other payables and accruals	22,920	16,665
Decrease in deposits received	(149)	(7,229)
Decrease in receipts in advance	(86)	(21,559)
Cash generated from operations	41,188	55,755
Income tax paid	(40)	(7,648)
Net cash generated from operating activities	41,148	48,107

	12 months ended 31 December 2014	18 months ended 31 December 2013
	HK$'000	*HK$'000*
Investing activities		
Acquisition of subsidiaries (net of cash and cash equivalent acquired)	–	(78,373)
Disposal of subsidiaries (net of cash and cash equivalent disposed)	–	7,545
De-consolidation of a subsidiary	(8,368)	–
Deposit paid for acquisition of property, plant and equipment	(21,693)	–
Purchase of property, plant and equipment	(1,781)	(29,411)
Purchase of intangible assets	(27,497)	(91,493)
Repayment of loan receivables and loan interest receivables	–	64,367
Proceeds from disposal of property, plant and equipment	18	1,980
Proceeds from disposal of financial asset at fair value through profit or loss	–	31,460
Interest received	65	50
Net cash used in investing activities	(59,256)	(93,875)
Financing activities		
Net proceeds from placement of shares	39,724	35,380
Proceeds of issue of unlisted warrants	–	14,600
Interest paid	(1,813)	(3,985)
Net cash generated from financing activities	37,911	45,995
Net increase in cash and cash equivalents	19,803	227
Cash and cash equivalents at the beginning of the year/period	10,966	8,191
Effect of foreign exchange rate changes	899	2,548
Cash and cash equivalents at the end of the year/period	31,668	10,966
Analysis of balances of cash and cash equivalents at the end of the year/period		
Bank balances and cash	31,668	10,966
	31,668	10,966

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. General information

Neo Telemedia Limited (the "**Company**") 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 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 Unit 1504, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

During the last financial period, the reporting period end date of the Company was changed from 30 June to 31 December. Accordingly, the consolidated financial statements for the prior period cover the eighteen months period ended 31 December 2013 and therefore the corresponding comparative amounts shown for the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes may not be comparable with amounts shown for the current period.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"). Other than those subsidiaries established in the People's Republic of China (the "**PRC**") whose functional currency is Renminbi ("**RMB**") and some subsidiaries' functional currency in US Dollar ("**USD**"), the functional currency of the Company and its remaining subsidiaries are Hong Kong dollar ("**HK$**"). 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 Company is an investment holding company and the principal activities of its subsidiaries are set out in Note 40 to the consolidated financial statements. The Group was also engaged in production and sales of videos and films, the licensing of video and copyrights/films rights and artiste management which were discontinued during the year ended 30 June 2012 (Note 14).

2. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised HKFRSs and Hong Kong Accounting Standards ("**HKASs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which are effective for the Group's financial year beginning on 1 January 2014.

HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount and Disclosures for Non-Financial Assets
HKAS 39 (Amendments)	Novation of Derivatives and Continuation of Hedge Accounting
HKFRSs (Amendments)	Annual Improvements to HKFRS 2009 – 2011 Cycle
HKFRS 1 (Amendments)	Government Loans
HKFRS 7 (Amendments)	Disclosure – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine
HK(IFRIC) – Int 21	Levies

Except for the amendments to HKAS 36, HKFRS 10, HKFRS 11 and HKFRS 12, the application of these new and revised HKFRSs has no material impact on the results and the financial position of the Group.

The nature of the impending changes in account policy on adoption of the amendments to HKAS 36, HKFRS 10, HKFRS 11 and HKFRS 12 are described below.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 *Consolidated Financial Statements*, HKFRS 11 *Joint Arrangements*, HKFRS 12 *Disclosure of Interests in Other Entities*, HKAS 27 (as revised in 2011) *Separate Financial Statements* and HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC) Int-12 *Consolidation – Special Purpose Entities*. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, HK(SIC) – Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under HKFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. Previously, HKAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 36 – Impairment of Assets: Recoverable Amount and Disclosures for Non-Financial Assets

The amendments to HKAS 36 are to remove certain unintended disclosure requirements which may be introduced by the consequential amendments to HKAS 36 when HKFRS 13 was issued. Furthermore, these amendments require the disclosure of additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendments to HKAS 36 are effective for annual periods beginning on or after 1 January 2014. The Group has early applied the amendments for the current accounting period beginning on 1 January 2013, but has not applied those amendments in periods (including comparative periods) in which it does not also apply HKFRS 13.

Except as described below, the application of the new and revised HKFRSs in the current year has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments [1]
HKFRS 9, HKFRS 7 and HKAS 39 (Amendments)	Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39 [7]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [7]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations [5]
HKFRS 14 (Amendments)	Regulatory Deferral Accounts [2]
HKFRS 15	Revenue from Contracts with Customers [3]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation [5]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants [5]
HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions [4]
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements [5]
HKFRSs (Amendments)	Annual Improvements to HKFRS 2010-2012 Cycle [6]
HKFRSs (Amendments)	Annual Improvements to HKFRS 2011-2013 Cycle [4]
HKFRSs (Amendments)	Annual Improvements to HKFRS 2012-2014 Cycle [5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 July 2014
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
7 No mandatory effective date yet determined but is available for adoption

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

The Directors anticipate that HKFRS 9 that will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2018 and that the application of new standard may have a significant impact on amounts reported in respect of Group's financial assets. However, it is not practical to provide a reasonable estimate of that effect until a detailed review has been completed.

Amendments to HKFRS 9, HKFRS 7 and HKAS 39 Hedge Accounting and amendments to HKFRS9, HKFRS 7 and HKAS 39

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "**Additions**") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated as at fair value through profit or loss using the fair value option ("**FVO**"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

– The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

– A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

– A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

– An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

– New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

HKFRS 14 Regulatory Deferral Accounts

HKFRS 14 Regulatory Deferral Accounts, describes regulatory deferral account balances as amounts of expense or income that would not be recognised as assets or liabilities in accordance with other standards, but that qualify to be deferred in accordance with IFRS/HKFRS 14 because the amount is included, or is expected to be included, by the rate regulator in establishing the price(s) that an entity can charge to customers for rate regulated goods or services.

The amendments to HKFRS 14 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors do not anticipate that the application of these amendments to HKFRS 14 will have a material impact on the Group's consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

– Step 1: Identify the contract(s) with a customer

– Step 2: Identify the performance obligations in the contract

– Step 3: Determine the transaction price

– Step 4: Allocate the transaction price to the performance obligations in the contract

– Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. The Directors believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 Agriculture: Bearer Plants

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The Directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The Directors do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements as the Group does not have any defined benefit plans.

Amendments to HKAS 27 Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

– At cost

– In accordance with HKFRS 9 Financial Instruments (or HKAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted HKFRS 9), or

– Using the equity method as described in HKAS 28 Investments in Associates and Joint Ventures.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First time Adoption of Hong Kong Financial Reporting Standards.

The Directors do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2010-2012 Cycle

The Annual Improvements to HKFRSs 2010-2012 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability.

Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2011-2013 Cycle

The Annual Improvements to HKFRSs 2011-2013 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of HKAS 40; and

(b) the transaction meets the definition of a business combination under HKFRS 3.

The Directors do not anticipate that the application of these amendments will have a material effect on the Group's consolidated financial statements.

Annual Improvements to HKFRSs 2012-2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments apply prospectively.

The amendments to HKFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 Disclosure – Offsetting Financial Assets and Financial Liabilities issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 Interim Financial Reporting.

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in retained earnings at the beginning of that period.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere within the interim financial report but outside the interim financial statements. The amendments require that such information be incorporated by way of a cross reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The Directors do not anticipate that the application of these will have a material effect on the Group's consolidated financial statements.

3. Significant accounting policies

These consolidated financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of the Growth Enterprise Market of Securities on The Stock Exchange of Hong Kong Limited.

These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustments in the next year are discussed in Note 4 to the consolidated financial statements.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Change in reporting period end date

Pursuant to the resolution of the board of directors of the Company dated 15 July 2013, the Company's financial year end date has been changed from 30 June to 31 December with effect from the eighteen months ended 31 December 2013.

The change is to align with the reporting period end date of the Company with that of its subsidiaries established in PRC, the financial results of which are consolidated into its consolidated financial statements each year, and their financial statements are statutorily required to use 31 December as the financial year end date.

Going Concern

The Group incurred loss of approximately HK$632,492,000 for the year ended 31 December 2014 and as of that date, the Group's current liabilities exceeded its current assets by approximately HK$46,756,000, and the net liabilities of the Group amounted to approximately HK$103,069,000. These conditions, along with other matters as set forth in note 43 to the consolidation financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Company's ability to continue as a going concern.

The Directors have been taking active steps to improve the liquidity position of the Group. These steps included (1) the Directors are considering various alternatives to strengthen the capital base of the Company through various fund raising exercises, including but not limited to, private placements, open offers or rights issue of new shares of the Company; and (2) the Directors continue to take action to tighten cost controls over various operating expenses, with an aim in attaining profitable and positive cash flow operations.

In light of the measures and arrangements as described above and with reference to a cash flow forecast in relation to the current business and financing plans of the Group, the Directors have concluded that the Group will have sufficient working capital to meet its financial obligations as and when they fall due. Accordingly, the Directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than at the amounts at which they are currently carried in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and liabilities as current assets and liabilities.

De-consolidation

Due to i) the non-cooperation of the key management of 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. The de-consolidation of CERNET Wifi had resulted in a net loss on de-consolidation subsidiary of approximately HK$174,024,000.

The Group had consolidated the assets and liabilities of CERNET Wifi as at 30 June 2014 and their results from the period from 1 January 2014 to 30 September 2014 in its interim report for the six months ended 30 June 2014 and the third quarterly report for the nine months ended 30 September 2014 based on the unaudited management information received. As the Directors had not been provided with the complete set of books and records together with the supporting documents for them to prepare proper consolidated financial statements and to make the appropriate disclosures under the annual report requirements which are more comprehensive than the disclosure requirements of the interim report and the third quarterly report, the Directors considered that it is more appropriate to de-consolidate CERNET Wifi from the consolidated financial statements of the Group as from 1 January 2014.

The following detailed the unaudited financial information, before intra-group balances and transactions elimination, of CERNET Wifi whose assets and liabilities and results had been consolidated in the Group's interim report for the six months ended 30 June 2014 and third quarterly report for the nine months ended 30 September 2014 respectively, but was excluded in these consolidated financial statements for the year ended 31 December 2014.

	Unaudited 9 months ended 30 September 2014 HK$'000
Revenue	8,969
Loss for the period	(2,219)
Other comprehensive expenses	(1,145)
Total comprehensive loss	(3,364)

	Unaudited 30 June 2014 HK$'000
Non-current assets	129,620
Current assets	11,764
Current liabilities	(444)
Non-current liabilities	(25,040)
Net assets	115,900

In the opinion of the directors of the Company, the consolidated financial statements for the year ended 31 December 2014 prepared on the aforementioned basis present more fairly the results and state of affairs of the Group as a whole in light of the aforesaid incomplete books and records of CERNET Wifi. However, the de-consolidation of the CERNET Wifi from the beginning of the year is a departure from the requirement of HKFRS 10 "Consolidated Financial Statements".

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;

- potential voting rights held by the Group, other vote holders or other parties;

- rights arising from other contractual arrangements; and

- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries.

Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquire and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRSs.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "**measurement period**" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of profit or loss and other comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with HKFRS 5 or when the investment is designated as at fair value through profit or loss upon initial recognition.

Under equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes and long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinued recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Subsidiaries

A subsidiary is a company in which the Company directly or indirectly controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the Company's financial statements at cost less impairment loss.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title have passed, at which time all the following conditions are satisfied:

Revenue from sales of telecommunication products is recognised when goods are delivered to customers which generally coincides with the time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue is recorded after deduction of any trade discount.

Network and satellite telecommunication services income based on usage of the Group's network and facilities is recognised when the services are rendered.

Telecommunication services provided for fixed periods is recognised on straight-line basis over the applicable fixed period.

Traffic signboard advertising income is recognised when services are provided.

Income from licensing and sub-licensing of distribution rights over films is recognised upon delivery of the prerecorded audio visual products and the materials for video features including the master tapes to the customers in accordance with the terms of the contracts.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment, other than construction in progress ("**CIP**"), held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method at the following rate per annum:

Leasehold improvements	25%
Office equipment	25%
Furniture and fixtures	25%
Motor vehicles	25%
Traffic signboards	20%

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straightline basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Nonmonetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Nonmonetary items are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gain and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 July 2005 are treated as assets and liabilities of that foreign operation and retranslated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Employee benefits

Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees in the Company's subsidiaries operating in the PRC are members of retirement benefits scheme (the "**PRC RB Schemes**") operated by the local municipal benefits. The local municipal government undertakes to assume the retirement benefit obligation of all existing and future retired employees of the PRC subsidiaries. The only obligation of the PRC subsidiaries with respect to the PRC RB Scheme is to meet the required contributions under the PRC RB Schemes. The contributions are charged to the profit or loss as they become payable in accordance with the relevant laws and regulations of the PRC.

Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Equity-settled share-based payment

Share options granted to directors and employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted.

The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses, being their fair value at the date of the revaluation less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation for intangible asset with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Inventories

Inventories, representing finished goods for resale, are stated at the lower of costs and net realisable value. Cost is calculated using first-in, first-out method. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the date of acquisition. At the end of the subsequent report periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with HKAS 37 and the amount initially recognised less cumulative amortization recognised in accordance with HKAS 18.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of asset within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, loan and loan interest receivables and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified accumulated impairment losses (see accounting policy on impairment loss of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period ranging from 90 to 180 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Convertible notes

Convertible notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the notes into equity, is included in convertible note reserve.

In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The equity component, representing the option to convert the liability component into ordinary shares of the Company, will remain in convertible note reserve until the embedded option is exercised (in which case the balance stated in convertible note reserve will be transferred to share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible note reserve will be released to the accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

Financial liabilities at fair value through profit or loss ("FVTPL")

Financial liabilities are classified as at FVTPL when the financial liabilities are designated at FVTPL on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with changes at fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at fair value through profit or loss ("**FVTPL**"), of which the interest expense is excluded in net gains or losses.

Other financial liabilities

Other financial liabilities including trade payables, other payables and accruals are subsequently measured at amortised cost, using the effective interest method.

Convertible notes designated at FVTPL

Convertible notes issued by the Group (including related embedded derivatives) are designated as FVTPL on initial recognition. At the end of each reporting period subsequent to initial recognition, the entire convertible notes are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Related parties

A related party is considered to be related to the Group if:

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which represents a separate major line of business or is part of a single co-ordinated plan to dispose of a separate major line of business.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Provision for inventories

Management reviews the ageing analysis of inventories of the Group at the end of each reporting period and makes provision if considered necessary. Management estimate the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. At 31 December 2014, the carrying amount of inventories was approximately HK$277,000 (2013: HK$614,000) after netting off the allowance for inventories of approximately HK$800,000 (2013: HK$800,000).

Impairment of property, plant and equipment

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset, which required significant judgment relating to level of revenue and amount of operating costs, The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. At 31 December 2014, the carrying amount of property, plant and equipment was approximately HK$11,957,000 (2013: HK$46,594,000) (net of accumulated impairment loss amounted to approximately HK$454,000 (2013: HK$ nil)). Details are disclosed in Note 18.

Estimated impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2014, the carrying amount of goodwill amounted to approximately HK$6,403,000 (2013: HK$329,017,000) (net of accumulated impairment loss amounted to approximately HK$1,104,316,000 (2013: HK$849,350,000)) and carrying amount of intangible assets amounted to approximately HK$59,206,000 (2013: HK$252,987,000) (net of accumulated amortisation and impairment loss amounted to approximately HK$347,147,000 (2013: HK$223,609,000)). Details are disclosed in Note 20 and 21.

Determination of fair values of identifiable intangible assets arising from the business combination

The acquired identifiable assets and liabilities had to be measured at their respective fair values as at the date of acquisition. The difference between the cost of acquisition and the fair value of the Group's share of net assets so acquired should be recognised as goodwill at the end of the reporting period or recognised in the consolidated statement of profit or loss and other comprehensive income. In the absence of an active market for the business combination/acquisition transactions undertaken by the Group, in order to determine the fair values of assets acquired and liabilities assumed, the directors of the Company had made their estimates according to the valuation results produced by external valuers. During the eighteen months ended 31 December 2013, the fair value of identifiable intangible assets arising from the acquisitions of Galaxy Palace Group Limited and HCH Investments Limited are approximately HK$100,160,000 and HK$58,967,000 respectively. Details of the identifiable intangible assets are disclosed in Note 21.

Estimated impairment of trade receivables and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2014, the carrying amount of trade receivables and other receivables are approximately HK$891,000 (2013: HK$9,469,000) (net of allowance for doubtful debts of approximately HK$41,000 (2013: HK$41,000) and HK$3,332,000 (2013: HK$17,646,000) (net of allowance for doubtful debt of HK$25,983,000 (2013: HK$nil)).

Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimate are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes convertible notes disclosed in Note 29, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the risks associates with each class of capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the new share issues as well as the issue of new debt or the redemption of the existing debt.

6. Financial instruments

Categories of financial instruments

	31 December 2014	**31 December 2013**
	HK$'000	*HK$'000*
Financial assets		
At amortised cost		
Loan and receivables (including cash and cash equivalents)		
Trade receivables	891	9,469
Deposits and other receivables	5,113	18,472
Cash and cash equivalents	31,668	10,966
	37,672	38,907
At fair value through profit or loss		
Derivative financial assets	–	711
	37,672	39,618

	31 December 2014 HK$'000	31 December 2013 HK$'000
Financial liabilities		
At amortised cost		
Trade payables	10,326	5,256
Other payables and accruals	84,870	47,463
Deposits received	–	149
Convertible notes	148,768	142,240
	243,964	195,108

Financial risk management objective and policies

The Group's financial instruments include trade receivables, deposits and other receivables, loan and loan interest receivables, cash and cash equivalents derivative financial assets, trade payables, other payables and accruals, deposits received, and convertible notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency, interest rates and price risk.

Market risk exposures are further measured by sensitivity analysis. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:

Currency risk

Several subsidiaries of the Group have certain foreign currency transaction, which expose the Group to foreign currency risk.

The carrying amounts of the Group's USD denominated monetary assets and monetary liabilities at the end of reporting period are as follows:

	Liabilities		**Assets**	
	31 December 2014	**31 December 2013**	**31 December 2014**	**31 December 2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
USD	5,200	5,218	48	7,213

The Group currently does not have a foreign currency hedging policy. However, the management has closely monitored the Group's foreign exchange exposure and will consider hedging significant foreign currency risk should the need arise.

Sensitivity analysis

As HK$ is pegged to USD, the financial impact on exchange risk is exposed to be insignificant.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to the fixed-rate loan receivables, convertible notes, and cash flow interest rate risk in relation to variable rate bank balances for both years.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest exposure and will consider other necessary actions when significant interest rate exposure is anticipated.

Price risk

The Group did not have investments in equity securities for treasury purpose and therefore is not exposed to equity price risk. The management has a policy to monitor the Group's exposure to price risk by maintaining a portfolio of investments with different risk and return profiles and will consider hedging the risk exposure should the need arises.

Credit risk

As at 31 December 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has concentration of credit risk as 83.8% (As at 31 December 2013: 84.7%) of trade receivables due from the Group's largest customer of the Group in the PRC. The Group's concentration of credit risk by geographical locations is in the PRC, which accounted for 100% (As at 31 December 2013: 100%) of total trade receivables as at 31 December 2014.

In order to minimise the credit risk, the management of the Group has reviewed the recoverable amount of each individual trade receivables, other receivables, loan and loan interest receivables at the end of the reporting period to ensure that adequate impairment losses are made to irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group deposited its cash and cash equivalents with approved and reputable bank. Bankruptcy and insolvency of the bank may cause the Group's right with respect to cash and cash equivalents held to be delayed or limited. Management of the Group monitors the credit rating of these banks on an ongoing basis, and considers that the Group's exposure to credit risk at 31 December 2014 and 31 December 2013 were minimal.

Further qualitative data in respect of the Group's exposure to credit risk arising from trade receivable disclosed in Note 25 to the consolidated financial statements.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	Weighted average effective interest rate	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total contractual undiscounted cashflow	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2014							
Non-derivative financial liabilities							
Trade payables	–	10,326	–	–	–	10,326	10,326
Other payables and accruals	–	84,870	–	–	–	84,870	84,870
Convertible bonds	11%	11,177	162,937	–	–	174,114	148,768
		106,373	162,937	–	–	269,310	243,964
At 31 December 2013							
Non-derivative financial liabilities							
Trade payables	–	5,256	–	–	–	5,256	5,256
Other payables and accruals	–	47,463	–	–	–	47,463	47,463
Deposits received	–	149	–	–	–	149	149
Convertible notes	11%	11,200	11,177	162,937	–	185,314	142,240
		64,068	11,177	162,937	–	238,182	195,108

Fair value of financial instruments

The fair value of financial liabilities are determined as follows:

- the fair value of financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis;

- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and

- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

Except for the liability component of convertible notes which recorded at amortised cost as below, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximately to their fair values.

	31 December 2014		**31 December 2013**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Convertible notes	148,768	152,292	142,240	148,615

The fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without conversion option.

Fair value Estimation

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to Level 3 based on the degree to which the fair value is observable.

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2014				
Assets				
Derivative financial assets	–	–	–	–
31 December 2013				
Assets				
Derivative financial assets	–	711	–	711

There were no transfer between Level 1, 2 and 3 in both year and period.

Some of the Group's and the Company's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair value as at				
Financial assets	**31 December 2014**	**31 December 2013**	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable inputs**
	HK$'000	*HK$'000*			
Derivative financial assets	–	711	Level 2	Binomial Option Pricing Model	Risk-free rate, applicable stock price, volatility, dividend yield, credit spread and liquidity risk premium

7. Turnover

Turnover represents 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 year/period, from continuing operations, is as follows:

	12 months ended 31 December 2014	18 months ended 31 December 2013
	HK$'000	*HK$'000*
Continuing operations		
Sale of telecommunication products and services	33,776	44,904
Transmedia advertising services	774	16,163
	34,550	61,067

8. Other income and gains

An analysis of the Group's other income and gains for the year/period, from continuing operations, is as follows:

	12 months ended 31 December 2014	18 months ended 31 December 2013
	HK$'000	*HK$'000*
Continuing operations		
Bank interest income	65	50
Commission income	–	9,750
Sundry income	690	1,171
Loan interest income	–	8,018
Exchange gain	–	1,539
	755	20,528

9. Segment information

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

– Transmedia advertising services

The operating segments regarding the film exhibition, film rights licensing and sub-licensing and artiste management were discontinued during the year ended 30 June 2012. The segment information reported below does not include any amounts for these discontinued operations, which are described in more detail in Note 14.

The Group reportable segments are strategic business units that operate different activities. They are managed separately because each business has different market and requires different marketing strategies.

Segment revenues and results

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

Continuing operations

	Sale of telecommunication products and services		Transmedia advertising services		Consolidated	
	12 months ended 31 December 2014	18 months ended 31 December 2013	12 months ended 31 December 2014	18 months ended 31 December 2013	12 months ended 31 December 2014	18 months ended 31 December 2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	33,776	44,904	774	16,163	34,550	61,067
Segment results	(485,849)	(22,620)	(84,281)	(322,460)	(570,130)	(345,080)
Interest income					65	8,068
Share of loss of an associate					–	(335)
Unallocated corporate income					–	93,587
Unallocated corporate expenses					(53,918)	(72,618)
Unallocated finance costs					(23,279)	(11,898)
Loss before tax					(647,262)	(328,276)
Income tax credit					14,770	2,758
Loss for the year/period					(632,492)	(325,518)

Segment revenue reported above represents revenue generated from external customers. There was no inter-segment sales in both year/period. The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the loss suffered from each segment without allocation of interest income, share of loss of an associate, change in fair value of contingent consideration payable, share-based payment expenses, central administration costs, directors' emoluments and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

Continuing operations

	Sale of telecommunication products and services		Transmedia advertising services		Consolidated	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment assets	121,245	585,368	15,059	98,223	136,304	683,591
Unallocated corporate assets					11,471	59,897
Consolidated assets					147,775	743,488
Segment liabilities	51,154	59,534	1,685	6,398	52,839	65,932
Unallocated corporate liabilities					198,005	175,992
Consolidated liabilities					250,844	241,924

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than unallocated corporate assets (mainly comprising certain of prepayments, deposits and other receivables, and derivative financial assets); and
- all liabilities are allocated to operating segments other than unallocated corporate liabilities (mainly comprising receipts in advances, contingent consideration payable, other payables and accruals, and convertible notes).

Other segment information

Continuing operations

	Sale of telecommunication products and services		Transmedia advertising services		Unallocated		Consolidated	
	12 months ended 31 December 2014	**18 months ended 31 December 2013**	**12 months ended 31 December 2014**	**18 months ended 31 December 2013**	**12 months ended 31 December 2014**	**18 months ended 31 December 2013**	**12 months ended 31 December 2014**	**18 months ended 31 December 2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amount included in the measure of segment results								
Capital expenditure	29,257	208,451	–	76,317	21	44	29,278	284,812
Change in fair value of contingent consideration payable	–	–	–	–	–	(93,587)	–	(93,587)
Depreciation of property, plant and equipment	971	2,303	4,617	8,753	183	260	5,771	11,316
Amortisation of intangible assets	27,300	21,472	7,574	14,887	–	–	34,874	36,359
Loss/(gain) on disposal of property, plant and equipment	1	(1,319)	537	6,042	–	–	538	4,723
Impairment loss recognised in respect of property, plant and equipment	454	–	–	–	–	–	454	–
Impairment loss recognised in respect of intangible assets	23,712	–	61,090	23,769	–	–	84,802	23,769
Impairment loss recognised in respect of goodwill	254,966	16,222	–	285,775	–	–	254,966	301,997
Impairment loss recognised in respect of other receivables	18,364	–	7,826	–	–	–	26,190	–
Net loss on de-consolidation of a subsidiary	174,024	–	–	–	–	–	174,024	–

Capital expenditure for the 12 months ended 31 December 2014 includes additions resulted from acquisition through business combinations, amounting to approximately HK$nil (for the 18 months ended 31 December 2013: HK$163,908,000).

Amounts regularly provided to the chief operating decision maker but not included in the measure of segment results or segment assets:

	Sale of telecommunication products and services		Transmedia advertising services		Unallocated		Consolidated	
	12 months ended 31 December 2014	18 months ended 31 December 2013	12 months ended 31 December 2014	18 months ended 31 December 2013	12 months ended 31 December 2014	18 months ended 31 December 2013	12 months ended 31 December 2014	18 months ended 31 December 2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest income	25	2,357	39	4,727	1	984	65	8,068
Finance costs	94	88	–	–	23,279	11,898	23,373	11,986
Income tax credit/(expense)	12,631	(807)	2,139	3,565	–	–	14,770	2,758

Information about major customers

Turnover from continuing operations from major customers of the corresponding year/period contributing over 10% of the total turnover of the Group are as follows:

	12 months ended 31 December 2014	18 months ended 31 December 2013
	HK$'000	*HK$'000*
[1]Customer A	N/A	6,544
[2]Customer B	N/A	13,178
[1]Customer C	12,461	N/A
[1]Customer D	6,550	N/A
[1]Customer E	5,664	N/A
	24,675	19,722

1 Sale of telecommunication products and services

2 Transmedia advertising services

Geographical information

The Group's operations are mainly located in Hong Kong and the PRC.

Information about the Group's revenue from continuing operations from external customers is presented based on the geographical location of the customer, and non-current assets information is presented based on the geographical location of the assets.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		**Non-current assets***	
	12 months ended 31 December 2014	**18 months ended 31 December 2013**	**31 December 2014**	**31 December 2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations				
Name of the country				
Hong Kong	–	–	226	388
The PRC (excluding Hong Kong)	34,550	61,067	99,033	628,210
	34,550	61,067	99,259	628,598

* Information about the Group's non-current assets, other than interest in an associate, is presented based on the geographical location of the assets.

10. Finance costs

	12 months ended 31 December 2014 *HK$'000*	18 months ended 31 December 2013 *HK$'000*
Continuing operations		
Effective interest charged on convertible notes *(Note 29)*	17,728	11,898
Interest on short-term loan	5,551	–
Bank interest expenses	94	88
	23,373	11,986

11. Income tax credit

Continuing operations	12 months ended 31 December 2014 *HK$'000*	18 months ended 31 December 2013 *HK$'000*
Current tax:		
– Hong Kong Profits Tax	–	–
– PRC Enterprise Income Tax	–	5,429
– Over-provision for prior year/period	(5,248)	–
Deferred tax *(Note 30)*	(9,522)	(8,187)
Total tax credit	(14,770)	(2,758)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. Hong Kong Profits Tax has not been provided for in the consolidated financial statements as the Group has no assessable profits arising in Hong Kong for both years.

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, a subsidiary of the Company, being qualified as a new and high technology enterprise, is eligible for a preferential Enterprise Income Tax rate of 15%.

The income tax credit for the year/period can be reconciled to the loss before tax from continuing operations per the consolidated statement of profit or loss and other comprehensive income as follows:

	12 months ended 31 December 2014 *HK$'000*	**18 months ended 31 December 2013** *HK$'000*
Loss before tax	(647,262)	(328,276)
Tax at applicable domestic income tax rate of 16.5% (2013: 16.5%)	(106,798)	(54,166)
Tax effect of share of loss of an associate	–	55
Tax effect of expense not deductible for tax purpose	113,950	60,746
Tax effect of income not taxable for tax purpose	(6,042)	(11,085)
Over-provision for prior year/period	(5,248)	–
Tax effect of tax losses not recognised	10,363	5,875
Utilisation of tax losses previously not recognised	(1,899)	–
Tax effect of deductible temporary differences not recognised	(9,522)	(8,187)
Tax effect of difference tax rates of subsidiaries operating in other jurisdiction	(9,574)	4,004
Income tax credit for the year/period	(14,770)	(2,758)

Details of deferred tax are set out in Note 30.

12. Loss before tax

Continuing operations	12 months ended 31 December 2014 *HK$'000*	18 months ended 31 December 2013 *HK$'000*
Loss before tax has been arrived at after charging/(crediting):		
Staff costs, including directors' remuneration *(Note 15)*		
– Salaries, wages and other benefits	15,277	36,711
– Share-based payments	–	30,490
– Contributions to retirement benefits schemes	113	144
Total staff costs	15,390	67,345
Depreciation of property, plant and equipment	5,771	11,316
Amortisation of intangible assets	34,874	36,359
Impairment loss recognised in respect of intangible assets	84,802	–
Impairment loss recognised in respect of goodwill	254,966	–
Impairment loss recognised in respect of other receivables	26,190	–
Impairment loss recognised in respect of property, plant and equipment	454	–
Net loss on de-consolidation of a subsidiary	174,024	–
Exchange difference, net	595	(1,539)
Loss on disposal of property, plant and equipment, net	538	4,723
Auditors' remuneration		
– audit service	1,080	1,080
– non-audit service	166	–
Minimum lease payments under operating lease in respect of rented premises	6,118	7,193
Cost of inventories recognised as expense	10,131	905

13. Loss per share

The calculation of the basic loss per share is based on the loss for the year/period attributable to owners of the Company and the weighted average number of ordinary shares.

From continuing and discontinued operations

The calculation of the basic and diluted loss per share attributable to owners of the Company for the year/period from continuing and discontinued operations is based on the following data:

	12 months ended 31 December 2014	**18 months ended 31 December 2013**
	HK$'000	*HK$'000*
Loss for the year/period attributable to owners of the Company and loss for the purpose of basic and diluted loss per share	567,394	315,736

	12 months ended 31 December 2014	**18 months ended 31 December 2013**
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	2,673,825	2,413,657

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible notes since their exercise would result in an anti-dilutive effect on loss per share.

The computation of diluted loss per share does not assume the exercise of the Company's share options and warrants because the exercise prices of those share options and warrants were higher than the average share price for 2014 and 2013.

From continuing operations

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

	12 months ended 31 December 2014	18 months ended 31 December 2013
	HK$'000	*HK$'000*
Loss for the year/period attributable to owners of the Company and loss for the purpose of basic and diluted loss per share	567,394	315,736
Profit for the year/period from discontinued operation	–	333
Loss for the purpose of basic and diluted loss per share from continuing operations	567,394	316,069

The denominators used are the same as these detailed above for both basic and diluted loss per share.

From discontinued operation

The basic and diluted earnings per share for the discontinued operation for the 12 months ended 31 December 2014 is HK$nil (for the 18 months ended 31 December 2013: loss of HK$0.01 cents) per share, based on the profit for the year from the discontinued operations of approximately HK$nil (for the 18 months ended 31 December 2013: HK$333,000) and the denominators detailed above for both basic and diluted loss per share.

14. Discontinued operation

On 21 June 2012, the Group entered into a sale agreement to dispose its wholly-owned subsidiaries, namely Getbetter Enterprises Limited and its subsidiaries ("**Getbetter Group**") and B&S Group Limited and its subsidiaries ("**B&S Group**"). Upon completion of the disposal on 28 September 2012, Getbetter Group and B&S Group ceased to be subsidiaries of the Group and the business of film exhibition, film rights licensing and sub-licensing and artiste management which were solely carried by Getbetter Group and B&S Group respectively, have become a discontinued operation of the Group. Details of disposal of Getbetter Group and B&S Group were set out in the Company's circular dated 13 July 2012.

The profit for the period from discontinued operation is analysed as follows:

	18 months ended 31 December 2013 *HK$'000*
Loss for the period	(147)
Impairment loss recognised in respect of assets held for sale	–
Gain on disposal of subsidiaries *(Note 35)*	480
	333

The results which have been included in the consolidated statement of profit or loss and other comprehensive income, are as follows:

	18 months ended 31 December 2013 *HK$'000*
Turnover	33
Cost of sales	(10)
Other income and gains	21
Administrative and other expenses	(191)
Loss before tax	(147)
Income tax credit	–
Loss for the period	(147)
Profit/(loss) for the period from discontinued operation include the following:	
Minimum lease payments under operating leases on land and buildings	76
Employee benefits expense	67
Impairment loss recognised in respect of other receivable	15
Cash flow from discontinued operation are as follows:	
Net cash outflow from operating activities	(86)
Net cash inflow from investing activities	21
Net cash outflow	(65)

15. Directors' remunerations

Names of directors	12 months ended 31 December 2014 Fees HK$'000	Salaries, wages and other benefits HK$'000	Contributions to retirement benefits schemes HK$'000	Share- based payments HK$'000	Total HK$'000	18 months ended 31 December 2013 Fees HK$'000	Salaries, wages and other benefits HK$'000	Contributions to retirement benefits schemes HK$'000	Share- based payments HK$'000	Total HK$'000
Executive directors:										
Mr. Li Hongrong *(Note a)*	–	–	–	–	–	11	2,171	10	5,618	7,810
Mr. Theo EDE *(Note b)*	5	286	–	–	291	24	282	–	2,809	3,115
Mr. Zhang Xinyu *(Note c)*	46	1,010	12	–	1,068	24	1,800	–	5,618	7,442
Mr. Lian Xin *(Note d)*	18	127	–	–	145	13	185	–	–	198
Mr. Cheung Sing Tai *(Note d)*	126	1,299	17	–	1,442	13	556	6	–	575
Independent non-executive directors:										
Professor Song Junde *(Note i)*	8	–	–	–	8	36	–	–	562	598
Professor Chen Lujun *(Note j)*	–	–	–	–	–	–	–	–	–	–
Mr. Lam Kin Kau, Mark *(Note k)*	13	–	–	–	13	85	–	–	562	647
Dr. Jih Chyi Leu *(Note i)*	7	201	–	–	208	526	–	–	–	526
Mr. Leung Ka Wo *(Note e)*	113	–	–	–	113	–	–	–	–	–
Ms. Xi Lina *(Note f)*	75	–	–	–	75	–	–	–	–	–
Ms. Lu Zhuo *(Note g)*	19	–	–	–	19	–	–	–	–	–
Mr. Chou Jianzhong *(Note h)*	94	–	–	–	94	–	–	–	–	–
	524	2,923	29	–	3,476	732	4,994	16	15,169	20,911

Notes:

a) Resigned on 21 June 2013

b) Removed on 18 March 2014

c) Appointed on 15 June 2012

d) Appointed on 21 June 2013

e) Appointed on 20 March 2014

f) Appointed on 16 May 2014

g) Appointed on 20 March 2014 and resigned on 16 May 2014

h) Appointed on 20 March 2014

i) Retired on 17 March 2014

j) Resigned on 18 June 2013

k) Removed on 18 March 2014

Mr. Cheung Sing Tai was also the chief executive officer of the Company and his emoluments disclosed above include these for service rendered by him as the chief executive officer for the twelve months ended 31 December 2014 (31 December 2013: Zhang Xinyu).

Of the five highest paid individual, three (for the 18 months ended 31 December 2013: two) were directors of the Company and remuneration has been disclosed above.

There was no arrangement under which a director waived or agreed to waive any emoluments in respect of the 12 months ended 31 December 2014 (for the 18 months ended 31 December 2013: nil).

During the 12 months ended 31 December 2014 and the 18 months ended 31 December 2013, no emoluments was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office.

16. Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, three (for the 18 months ended 31 December 2013: two) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining two (for the 18 months ended 31 December 2013: three) highest paid individuals during the year/period were as follows:

	12 months ended 31 December 2014 *HK$'000*	**18 months ended 31 December 2013** *HK$'000*
Salaries, wages and other benefits	1,741	1,253
Share-based payments	–	8,684
Contributions to retirement benefits schemes	29	20
	1,770	9,957

The emoluments of the remaining two (for the 18 months ended 31 December 2013: three) highest paid individuals fell within the following bands:

	12 months ended 31 December 2014 *HK$'000*	18 months ended 31 December 2013 *HK$'000*
Emolument bands		
Nil to HK$1,000,000	1	–
HK$1,000,001 to HK$1,500,000	1	–
HK$3,000,000 to HK$3,500,000	–	3

During the year/period, no emolument was paid to the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (for the 18 months ended 31 December 2013: Nil).

During the 18 months ended 31 December 2013, share options were granted to directors, highest paid employees in respect of their services to the Group, and further details of which are included in Note 32 to the consolidated financial statements. The fair value of such options, which has been charged to the consolidated statement of profit or loss and other comprehensive income, was determined at the date of the grant and was included in the above non-director highest paid employees' remuneration disclosures.

At 31 December 2014, the directors of the Company held share options under the Company's share option schemes. Details of the share options are disclosed under the paragraph "**Share option schemes**" in the report of the directors and Note 32.

17. Dividends

No dividend was paid or proposed during the 12 months ended 31 December 2014, nor has any dividend been proposed since the end of the reporting period (for the 18 months ended 31 December 2013: nil).

18. Property, plant and equipment

	Leasehold improvements *HK$'000*	Office equipment *HK$'000*	Furniture and fixtures *HK$'000*	Motor vehicles *HK$'000*	Traffic signboards *HK$'000*	Leasehold of network equipment *HK$'000*	Total *HK$'000*
Cost							
At 1 July 2012	620	13,622	249	3,526	31,570	–	49,587
Exchange realignment	1	802	121	448	4,900	959	7,231
Additions	530	977	44	–	–	27,860	29,411
Acquired on acquisition of subsidiaries *(Note 34(a) and (b))*	64	835	3,882	–	–	–	4,781
Disposals	–	(1,098)	–	(3,407)	(10,346)	–	(14,851)
At 31 December 2013 and 1 January 2014	1,215	15,138	4,296	567	26,124	28,819	76,159
Exchange realignment	(8)	(237)	1,672	(126)	(385)	–	916
Additions	–	286	1,495	–	–	–	1,781
De-consolidation of a subsidiary *(Note 36)*	–	(407)	–	–	–	(28,819)	(29,226)
Disposals	–	(10)	–	–	(1,296)	–	(1,306)
At 31 December 2014	1,207	14,770	7,463	441	24,443	–	48,324
Accumulated depreciation and impairment							
At 1 July 2012	199	13,337	84	2,556	7,167	–	23,343
Exchange realignment	132	538	(169)	(467)	3,020	–	3,054
Provided for the period	163	1,451	270	358	9,074	–	11,316
Eliminated on disposals	–	(1,542)	–	(2,328)	(4,278)	–	(8,148)
At 31 December 2013 and 1 January 2014	494	13,784	185	119	14,983	–	29,565
Exchange realignment	(136)	561	1,883	174	(1,136)	–	1,346
Provided for the year	325	162	686	84	4,514	–	5,771
Impairment loss recognised during the year	390	64	–	–	–	–	454
De-consolidation of a subsidiary *(Note 36)*	–	(19)	–	–	–	–	(19)
Eliminated on disposals	–	(9)	–	–	(741)	–	(750)
At 31 December 2014	1,073	14,543	2,754	377	17,620	–	36,367
Carrying values							
At 31 December 2014	134	227	4,709	64	6,823	–	11,957
At 31 December 2013	721	1,354	4,111	448	11,141	28,819	46,594

Depreciation charge of approximately HK$4,878,000 (for the 18 months ended 31 December 2013: HK$8,581,000) with respect of office equipment and traffic signboard has been included in cost of sales in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2014.

During the year ended 31 December 2014, the directors conducted a review of the Group's office equipment and determined that a number of these assets were impaired, due to physical damage and technical obsolescence. Accordingly, impairment losses of approximately HK$390,000 (18 months ended 31 December 2013: HK$Nil) and HK$64,000 (18 months ended 31 December 2013: HK$Nil) respectively have been recognised in respect of office equipment and other assets, which were used in the segment of sale of telecommunication products and services.

19. Interests in an associate

	31 December 2014 *HK$'000*	31 December 2013 *HK$'000*
Cost of investment in an associate		
Unlisted	335	335
Share of post-acquisition loss and other comprehensive income	(335)	(335)
	–	–

At 31 December 2014, the Group had interest in the following associate:

Name of entity	Class of shares held	Country of incorporation/ registration	Principal Place of operation	Normal value of paid up issued share capital	Proportion of nominal value of issued capital held by the Group 2014	2013	Proportion of voting power held 2014	2013	Principal activities
China Orient Space Communications Ltd	Ordinary	British Virgin Islands	Hong Kong	USD100	33%	33%	33%	33%	Investment holding

The summarised financial information in respect of the Group's associate is set out below:

	31 December 2014 HK$'000	31 December 2013 HK$'000
Total assets	2,738	2,738
Total liabilities	(7,255)	(5,268)
Net liabilities	(4,517)	(2,530)
Group's share of net assets of the associate	–	–

	12 months ended 31 December 2014 HK$'000	18 months ended 31 December 2013 HK$'000
Total revenue	–	–
Total loss for the year/period	(1,987)	(4,814)
Total comprehensive loss	(1,987)	(4,814)
Group's share of loss and other comprehensive loss of associate for the year/period	–	(335)

20. Goodwill

	HK$'000
Cost	
At 1 July 2012	898,881
Arising on acquisition of subsidiaries *(Note a)*	279,486
At 31 December 2013 and 1 January 2014	1,178,367
De-consolidation of a subsidiary *(Note 36)*	(67,648)
At 31 December 2014	1,110,719
Accumulated impairment	
At 1 July 2012	547,353
Impairment loss recognised for the period	301,997
At 31 December 2013 and 1 January 2014	849,350
Impairment loss recognised for the year *(Note 22)*	254,966
At 31 December 2014	1,104,316
Carrying values	
At 31 December 2014	6,403
At 31 December 2013	329,017

Notes:

(a) During the period ended 31 December 2013, goodwill amounted to approximately HK$211,838,000 and HK$67,648,000 was arisen from the acquisition of HCH Investments Limited and its subsidiaries ("**Hughes China Group**") and Galaxy Palace Group Limited and its subsidiaries ("**CERNET Wifi Group**") respectively. For details, please refer to the Note 34.

21. Intangible assets

	Wireless network platform	Contracted And uncontracted customers relationships	Lottery software development system	Exclusive right on purchase and sales of satellite communication equipment	Brand name and distribution network	Computer software	Technical know how technology	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost								
At 1 July 2012	8,115	217,722	–	–	–	–	–	225,837
Acquired on acquisition of subsidiaries *(Note 34)*	–	–	–	58,967	100,160	–	–	159,127
Additions	15,176	–	–	–	–	–	76,317	91,493
Exchange alignment	139	–	–	–	–	–	–	139
At 31 December 2013 and 1 January 2014	23,430	217,722	–	58,967	100,160	–	76,317	476,596
Additions	–	–	1,010	–	–	26,487	–	27,497
De-consolidation of a subsidiary *(Note 36)*	–	–	–	–	(100,160)	–	–	(100,160)
Exchange alignment	(216)	–	(8)	–	–	(202)	(1,154)	(1,580)
At 31 December 2014	23,214	217,722	1,002	58,967	–	26,285	75,163	402,353
Accumulated amortisation and impairment								
At 1 July 2012	135	163,420	–	–	–	–	–	163,555
Provided for the period	2,983	19,143	–	13,608	–	–	625	36,359
Impairment loss recognised for the period	–	23,769	–	–	–	–	–	23,769
Exchange alignment	(85)	–	–	–	–	–	11	(74)
At 31 December 2013 and 1 January 2014	3,033	206,332	–	13,608	–	–	636	223,609
Provided for the year	4,667	3,254	67	18,144	–	1,168	7,574	34,874
Impairment loss recognised for the year *(Note 22)*	15,576	8,136	–	–	–	–	61,090	84,802
Exchange alignment	(62)	–	–	(1)	–	(9)	(66)	(138)
At 31 December 2014	23,214	217,722	67	31,751	–	1,159	69,234	343,147
Carrying values								
At 31 December 2014	–	–	935	27,216	–	25,126	5,929	59,206
At 31 December 2013	20,397	11,390	–	45,359	100,160	–	75,681	252,987

The above intangible assets, other than brand name and distribution network, have finite useful lives. Such intangible assets are amortised on a straight-line basis over the following periods:

Wireless network platform	5 years
Contracted and uncontracted customer relationship	4 years
Exclusive rights on purchase and sale of satellite communication equipment and related services and trademark	3.25 years
Technical know how technology	10 years
Computer software	5 years

The brand name and the distribution network is endorsed by Ministry of Education of the PRC to provide personal broadband services and various products to the end users in the higher educational institutions in the PRC. As a result, the brand name and the distribution network is considered by the management of the Group as having an indefinite useful life. The brand name and distribution network will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. Particulars of the impairment testing are disclosed in Note 22.

22. Impairment testing on goodwill and intangible assets

For the purpose of impairment testing, goodwill with indefinite useful life set out in note 20 has been allocated to the following groups of cash-generating units:

- Transmedia advertising services – Ease Ray Group
- Sale of telecommunication products and services – China Wimetro Group
- Sale of telecommunication products and services – Smart Long Group
- Sale of telecommunication products and services – CERNET Wifi Group
- Sale of telecommunication products and services – Hughes China Group

The carrying amount of goodwill (net of accumulated impairment losses and effect of de-consolidation of a subsidiary) allocated to these units are as follows:

	31 December 2014	31 December 2013
	HK$'000	*HK$'000*
Transmedia advertising services – Ease Ray Group	–	–
Sale of telecommunication products and services – China Wimetro Group	–	–
Sale of telecommunication products and services – Smart Long Group	–	49,531
Sale of telecommunication products and services – CERNET Wifi Group	–	67,648
Sale of telecommunication products and services – Hughes China Group	6,403	211,838
	6,403	329,017

Sales of telecommunication products and services

Smart Long Group

On 1 July 2011, the Group completed the acquisition of Smart Long Limited and its subsidiaries (collectively referred to as "**Smart Long Group**"). Smart Long Group is granted an exclusive right to sell and market the high temperature superconducting ("**HTS**") filtering solutions in Guangdong and Guangxi, the PRC. Since 2012, the development and profitability of Smart Long Group was adversely affected due to the following factors: 1) There was a supply shortage of HTS filters. 2) Smart Long Group's major customers, i.e. the major telecommunication operators in the PRC, changed their procurement policy, called "泛招標化" (General Bidding Purchasing Policy), due to the change of the relevant regulations in the PRC. This has delayed the procurement process of these operators; the order of the first batch of HTS filters made by them has been extended by one year to the Company's next financial year. 3) The fierce competition among network equipment manufacturers made the price of base station fall remarkably. The dominance of the HTS system in the market share of network optimization market was therefore adversely affected. 4) Our major customer which was a major telecommunication operator, has reduced its investment in network equipments so as to utilize such fund to implement their marketing strategies, such as various kinds of subsidies to their subscribers.

In view of the uncertainty of the business of HTS filtering solutions, Smart Long Group has shifted its focus on other projects since the last financial period, particularly mobile internet lottery.

Given the uncertainty of the business of HTS filtering solutions and the change in Smart Long Group's focus, it is expected that the original cash generating unit, i.e. the business of HTS filtering solutions and the IT support services, will not generate any cash flows in the future. As a result, the management has decided to fully write off the goodwill arose from the acquisition of Smart Long Group and the relevant intangible assets during the year ended 31 December 2014.

As at 31 December 2013, the recoverable amount of Smart Long Group's cash generating unit was determined based on value-in-use calculation. Such calculation is based on 1) the profit forecast prepared by Smart Long Group covering a five-year period and 2) a discount rate of 24.14% per annum which reflects current market assessments of the time value of money and the credit risk specific to the cash generating unit.

Profit forecast was based on budgeted sales and budgeted cost of sales during the budgeted period. Budgeted gross margins were determined based on management's expectation for market development and past experience, and the management believes that the budgeted gross margins were reasonable. The cash flows beyond that five year periods have been extrapolated using 3% per annum growth rate adopted afterwards, which is in line with the long-term growth rate for the relevant industry. The key assumptions for the value-in-use calculations are those regarding the growth rates and discount rates. Based on the business valuation report issued by Messrs. Asset Appraisal Limited ("**Asset Appraisal**") on Smart Long Group, the Group has recognised an impairment loss of approximately HK$16,222,000 and HK$nil, respectively on goodwill and intangible assets arose on the acquisition of Smart Long Group during the 18 months ended 31 December 2013.

Hughes China Group

The Hughes China Group is principally engaged in development of Internet technology and satellite communication technology as well as trading in satellite communication system devices.

For the impairment testing purpose, the goodwill arising from acquisition of Hughes China Group (Note 34) of approximately HK$211,838,000 and intangible asset of exclusive right on purchase and sales of satellite communication equipment of approximately HK$58,967,000 was allocated to cash generating unit of Hughes China Group.

Despite increase in revenue contribution for the year ended 31 December 2014, the two major projects, namely "天地星" and "蒙古包", which the Hughes China Group had been working on since last financial period, had not been carried out as originally scheduled due to the continuous delay in obtaining funding by HughesNet China Company Limited (休斯網絡技術(北京)有限公司)("**HughesNet China**"), a subsidiary that is 45% indirectly owned by the Company and the operating entity of Hughes China Group, from its shareholders for the two projects. As a result, the Group was not able to develop the business of Hughes China Group as originally planned and its profitability has been adversely impacted. Based on the valuation report issued by Grant Sherman Appraisal Limited on Hughes China Group, the Group has recognised an impairment loss of approximately HK$205,435,000 on goodwill arose on the acquisition of Hughes China Group for the year ended 31 December 2014 (18 months ended 31 December 2013: HK$Nil).

As the cash generating unit has been reduced to its recoverable amount of approximately HK$88,641,000, any adverse change in the assumption used in the calculation of recoverable amount would result in further impairment losses.

The recoverable amount of Hughes China Group's cash generating unit is determined based on value-in-use calculation. Such calculation is based on 1) the profit forecast prepared by HughesNet China covering a five-year period and 2) a discount rate of 28.31% (2013: 29.03%) per annum which reflects current market assessments of the time value of money and the credit risk specific to the cash generating unit.

Given the aforesaid factors and the results of the annual review of the existing business by HughesNet China's management, which have adversely affected the financial performance of Hughes China Group, figures, particularly revenue, adopted in the five-year profit forecast of HughesNet China have been revised. For the eighteen months ended 31 December 2013, a compound average growth rate ("**CAGR**") of revenue of approximately 41.06% was adopted for the five-year profit forecast used for the value-in-use calculation while for the year ended 31 December 2014, a CAGR of revenue of approximately 18.10% was adopted.

Other than the aforesaid revision, key assumptions and valuation method have no material change for the value-in-use calculation as at 31 December 2013 and 31 December 2014.

CERNET Wifi Group

The Group is principally engaged in the provision of personal broadband access services for China education and research network of China Ministry of Education ("**CERNET**"), including the construction and operation of individual broadband access network, the development of Internet content and the provision of value-added telecommunication services in all higher educational institutions that are connected to CERNET.

As mentioned in note 3 to the consolidated financial statements, CERNET Wifi Technology (Beijing) Company Limited, the operating entity of the CERNET Wifi Group, was de-consolidated as from 1 January 2014. As a result, goodwill and intangible assets allocated to the CGU of approximately HK$67,648,000 and HK$100,160,000 respectively were also de-consolidated (Note 36).

The recoverable amount of CERNET Wifi Group as at 31 December 2013 has been determined based on a value in use calculation. That calculation uses cash flow projections based on the financial budgets approved by management covering a 5-year period, and discount rate of 30.78%. The cash flows beyond the 5-year period are extrapolated using a 3% growth rate. This growth rate is based on the relevant industry growth forecast and does not exceed the long-term average growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CERNET Wifi Group to exceed aggregate recoverable amount of the CERNET Wifi Group.

Based on the business valuation report issued by Grant Sherman Appraisal Limited of CERNET Wifi Group, the recoverable amount exceeds the carrying amount of goodwill and intangible assets, no impairment charge was necessary in relation to this CGU for the eighteen months ended 31 December 2013.

Providing advertising services

Ease Ray Group

The Group operates outdoor advertising business via the city informational pedestrian traffic signboard system (the "**System**") developed by Shanghai Dasan Hexian City Environmental Art Company Limited (上海大三和弦城市環境藝術有限公司) ("**Dasan Hexian**"), a 51.1% indirectly owned subsidiary of the Company. The System delivers public information, commercial information and advertisements on LED screens of traffic signboards through wireless technology for government departments, public institutions and companies. As recognised by municipal traffic police departments in the PRC, the System has been granted the utility model patent certificate and the Shanghai High & New Technology Transformation Certificate.

During the 12 months ended 30 June 2012, because of the European debt crisis that has led to tightened credit and liquidity problem, Ease Ray Group encountered difficulties in obtaining financing in the money market and raising funds from the capital market. Due to the lack of funding: 1) Dasan Hexian missed the opportunities to obtain more resources in cities at an early stage, which has resulted in only four cities being equipped on a permanent basis for the traffic signboard media business. Thus, the business is not able to develop into media of a national scale. Consequently, it cannot attract large national advertisement customers. 2) Ease Ray Group is unable to carry out large-scale upgrading and transformation to traffic signboards in cities with pilot installations. Ease Ray Group is even unable to complete the total installed capacities as set out in contracts executed, seriously undermining the advantage of networking information delivery on traffic signboards in those cities. The total number of the traffic signboard media owned by Dasan Hexian is able to satisfy neither the requirement of installation on roads of the existing four cities nor customers' requirement to deliver information across the cities. 3) The maintenance of traffic signboards cannot be dealt with in time, causing abnormal information delivery in a number of traffic signboards. This has negative impact on the image of municipal facilities and was held accountable by the relevant authorities. It also had negative effect on customers' confidence towards traffic signboard media, which makes it more difficult to achieve good results for traffic signboard media.

As a result, the Group was unable to develop the business of Ease Ray Group as originally planned and its profitability has been adversely impacted. During the eighteen months ended 31 December 2013, Ease Ray Group's revenue decreased further as a result of 1) road expansion and subway construction carried out by the municipal governments of Xiamen and Nanchang, which led to temporary uninstallation of the pedestrian traffic lights located in these two cities; 2) the policy implemented by the municipal government of Shangrao to rectify the local overadvertised market; 3) maintenance due to the aging of traffic lights, there was no revenue generated from these traffic lights until the maintenance work in completed; and 4) fierce competition in the outdoor advertising industry and the worsening economic situation in the PRC. As at 31 December 2013, the recoverable amount of this cash-generating unit is determined based on value-in-use calculation. The calculation based on i) the profit forecast approved by the management covering a five-year period, ii) a discount rate of 19.23% per annum which reflects current market assessments of the time value of money and the credit risk specific to the CGUs and iii) a CAGR of revenue of approximately 0.74%.

Profit forecast was prepared based on budgeted sales and budgeted cost of sales during the budgeted period. Budgeted gross margins were determined based on management's expectation for future market development and past experience, and the management believes that the budgeted gross margins were reasonable and achievable. The cash flows beyond that five-year period have been extrapolated using 3% per annum growth rate, which is in line with the long-term growth rate for the relevant industry. The key assumptions for the value-in-use calculations are those regarding the growth rates and discount rates.

Based on the business valuation report issued by Asset Appraisal of Ease Ray Group, the Group has recognised an impairment loss of approximately HK$285,775,000 and HK$23,769,000, respectively on goodwill and intangible assets arose on the acquisition of Ease Ray Group for the 18 months ended 31 December 2013.

As at 31 December 2013, the goodwill arose from the acquisition of Ease Ray Group and the relevant intangible assets have been fully impaired.

During the year ended 31 December 2014, in view of the uncertainties and risk factors of the advertising industry in the PRC, such as changing government policy to restrict or curtail advertising services, fierce competition in outdoor advertising market and rapid change in technology, the directors of the Company considered it was risky to make further investment in Ease Ray Group. As a result, the management of Ease Ray Group has revised downward the profit forecast on the intangible assets of enhanced LED display technology. Based on the valuation report issued by Asset Appraisal, the Group has recognised an impairment loss of approximately HK$61,090,000. The recoverable amount is based on value-in-use calculation with a discount rate of 18.34% (31 December 2013: 21.25%) covering the remaining useful life of the intangible asset.

23. Prepayments, deposits and other receivables

The Group

	31 December 2014 HK$'000	31 December 2013 HK$'000
Current assets		
Prepayment *(Note a)*	10,567	74,658
Deposits	1,781	826
Other receivables	29,315	17,646
	41,663	93,130
Less: accumulated allowance for doubtful debts	(25,983)	–
	15,680	93,130

Note:

(a) (i) Included in prepayments as at 31 December 2013 are prepaid leasing fee of HK$24,561,000 to an independent third party for the lease of Ka-Beam of a satellite known as AMOS-4 for the development of the Group's satellite business. Details of the lease transaction are set out in the Company's announcement dated 31 October 2013.

The amount has been fully utilised during the year ended 31 December 2014.

(ii) Included in prepayments as at 31 December 2013 is advance payment to an independent third party for the project development and consultancy services of approximately HK$13,800,000.

The amount has been fully settled during the year ended 31 December 2014.

(iii) Included in prepayments as at 31 December 2013 is advance payment to an independent third party for acted as an agent of referring investment projects amounting to approximately HK$19,106,000.

The amount has been fully settled during the year ended 31 December 2014.

Movements in the accumulated allowance for doubtful debts for prepayments, deposits and other receivables:

	31 December 2014	**31 December 2013**
	HK$'000	*HK$'000*
At 1 January/1 July	–	1,157
Exchange realignment	(207)	–
Impairment losses recognised during the year	26,190	–
Written off of impairment losses during the year	–	(1,157)
At 31 December	25,983	–

Included in the accumulated allowance for doubtful debts are individually impaired receivables with and aggregated balances of HK$26,190,000 (As at 31 December 2013: HK$nil) in which the directors of the Company consider that the Group is unlikely to recover these debts as they are long outstanding. The directors of the Company have been taking all reasonable steps such as legal procedures, to recover those outstanding debts. The Group does not hold any collateral over these balances.

24. Inventories

	31 December 2014	**31 December 2013**
	HK$'000	*HK$'000*
Finished goods	1,077	1,414
Less: Accumulated impairment	(800)	(800)
	277	614

During the 12 months ended 31 December 2014, the directors of the Company conducted a review of the Group's inventories and no impairment loss has been recognised (for the 18 months ended 31 December 2013: HK$800,000).

25. Trade receivables

	31 December 2014 HK$'000	31 December 2013 HK$'000
Trade receivables	932	9,510
Less: Accumulated allowance for doubtful debts	(41)	(41)
	891	9,469

The Group allows an average credit period of 90 days (2013: 90 days) to its trade customers. The following is an aged analysis of trade receivables net of accumulated allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

	31 December 2014 HK$'000	31 December 2013 HK$'000
Within 30 days	333	101
31 to 60 days	539	–
61 to 90 days	–	511
Over 90 days	19	8,857
	891	9,469

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately HK$19,000 (2013: HK$8,857,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the balances are still considered to be recoverable. The Group does not hold any collateral over these balances. The ageing of these receivables is over 90 days (2013: over 90 days).

Ageing of trade receivables which are past due but not impaired:

	31 December 2014 HK$'000	31 December 2013 HK$'000
Overdue by:		
Over 90 days	19	8,857

Movements in the accumulated allowance for doubtful debts for trade receivables:

	From 1 January 2014 to 31 December 2014	From 1 July 2012 to 31 December 2013
	HK$'000	*HK$'000*
At 1 January/1 July	41	41
Impairment loss recognised during the year/period	–	–
At 31 December	41	41

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the report period. The concentration of credit risk is limited due to the customer base being large and unrelated.

Included in the Group's accumulated allowance for doubtful debts of trade receivables are individually impaired trade receivables with an aggregated balances of approximately HK$41,000 as at 31 December 2014 and 2013. The directors of the Company considered that the Group was unlikely to recover these debts as they were long outstanding over one year. The Group does not hold any collateral over these balances.

26. Cash and cash equivalents

	The Group	
	31 December 2014	31 December 2013
	HK$'000	*HK$'000*
Cash in hand and at bank		
HKD	6,866	22
RMB	24,754	10,904
USD	48	40
	31,668	10,966

Cash and cash equivalents consist of cash on hand and balance with banks.

Bank balances carry interest at market rates ranged from 0.001% to 0.46% (As at 31 December 2013: 0.001% to 0.46%) per annum at 31 December 2014.

The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

27. Trade payables

	31 December 2014	**31 December 2013**
	HK$'000	*HK$'000*
Trade payables	10,326	5,256

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

	31 December 2014	**31 December 2013**
	HK$'000	*HK$'000*
61 to 90 days	10,289	38
Over 90 days	37	5,218
	10,326	5,256

The average credit period on purchases of goods is 90 days (As at 31 December 2013: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

28. Other payables and accruals

	31 December 2014	**31 December 2013**
	HK$'000	*HK$'000*
Other payables	59,736	39,662
Accruals	25,134	7,801
	84,870	47,463

Included in other payables as at 31 December 2014 is a short term loan from an independent third party of approximately HK$27,320,000 (2013: HK$27,320,000) to finance the acquisition of subsidiaries.

The loan is unsecured, denominated in HK$ and carries a fixed interest rate at 1.2% per month and is repayable within one year from the end of the reporting period.

Included in accruals are interest payable of approximately HK$13,869,000 in relation to the convertible notes issued by the Company.

29. Convertible notes

Convertible notes due 2016 ("CN 2016")

On 5 April 2013, the Company issued convertible notes with a nominal value of HK$160,000,000 due on 5 April 2016. Each convertible note carries interest at 7% per annum payable semi-annually in arrears with the first interest payment due on 5 October 2013 and the last interest payment is due on 5 April 2016. The CN 2016 entitles holders to convert the notes into new ordinary shares of the Company at a conversion price, subject to adjustment, of HK$2.5 per share during the period from 5 April 2013 to 31 March 2016. If the CN 2016 have not been converted, they will be redeemed at par on 5 April 2016.

The CN 2016 is not redeemable at the option of note-holders. In addition, the Company has the right to redeem any portion of the CN 2016 at its principal amount at any time prior to the maturity date.

The CN 2016 contains three components, liability, redemption option derivative and equity component. The equity element is presented in equity heading "convertible notes reserve. The effective interest rate of the liability component is 11.29% per annum. The redemption option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Upon the issue of the CN 2016, an amount of HK$138,627,000, HK$6,206,000 and HK$7,131,000 were recognised as liability, derivative financial asset and equity, respectively.

During the year ended 31 December 2014, no redemption of the CN 2016 was made by the Company (18 months ended 31 December 2013: Nil). At 31 December 2014, carrying amount of CN 2016 of approximately HK$148,768,000 (principal amount of HK$160,000,000) remained outstanding (31 December 2013: HK$142,240,000).

The movements of the liability component and redemption option derivative of the convertible notes during the year/period are set out below:

	Liability component	**Redemption option derivative**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2012	–	–	–
Issue of convertible notes	138,627	(6,206)	132,421
Effective interest charged	11,898	–	11,898
Coupon interest accrued and included in interest payable	(8,285)	–	(8,285)
Change in fair value of derivative financial assets	–	5,495	5,495
At 31 December 2013	142,240	(711)	141,529
Effective interest charged	17,728	–	17,728
Coupon interest accrued and included in interest payable	(11,200)	–	(11,200)
Change in fair value of derivative financial assets	–	711	711
At 31 December 2014	148,768	–	148,768

The fair values of CN 2016 at the date of issue, at 31 December 2013 and at 31 December 2014 are based on valuations carried out on those dates by independent valuers.

30. Deferred taxation

Detail of the deferred tax liabilities recognised and movements thereon during the year/period is as follow:

	Intangible assets
	HK$'000
At 1 July 2012	9,772
Acquisition of Hughes China Group *(Note 34(a))*	14,741
Acquisition of CERNET Wifi Group *(Note 34(b))*	25,040
Credited to consolidated statement of profit or loss and other comprehensive income	(8,187)
At 31 December 2013	41,366
De-consolidation of a subsidiary *(Note 36)*	(25,040)
Credited to consolidated statement of profit or loss and other comprehensive income	(9,522)
At 31 December 2014	6,804

At the end of the reporting period, the Group has unused tax losses of approximately HK$130,281,000 (As at 31 December 2013: HK$67,475,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At 31 December 2014 and 31 December 2013, the Group did not have any deductible temporary differences. No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statement in respect of temporary difference attributable to the profits earned by the PRC subsidiaries as the Group is able to control the timing of reversal at the temporary difference and it is probable that will not reverse in the foreseeable future.

31. Share capital

	Par value per share	Number of shares	Amount
	HK$		*HK$'000*
Authorised:			
At 1 July 2012 and 31 December 2013	0.1	4,000,000,000	400,000
Increase of authorised share capital *(note a)*	0.1	6,000,000,000	600,000
At 31 December 2014	0.1	10,000,000,000	1,000,000
Issued and fully paid:			
At 1 July 2012	0.1	2,326,920,793	232,692
Issue shares in relation to the Hughes China Acquisition *(note b)*	0.1	119,000,000	11,900
Placing of shares *(note c)*	0.1	109,000,000	10,900
At 31 December 2013 and 1 January 2014	0.1	2,554,920,793	255,492
Placing of shares *(note d)*	0.1	200,000,000	20,000
At 31 December 2014	0.1	2,754,920,793	275,492

Notes:

(a) Pursuant to an ordinary resolution passed on the annual general meeting dated 17 March 2014, the authorised share capital was increased to HK$1,000,000,000 divided into 10,000,000,000 shares of HK$0.10 each.

(b) Pursuant to the terms of the agreement dated 7 January 2013 entered into between the Company and Oberlin Asia Inc., an independent third party, in relation to the acquisition of the entire issued share capital of HCH Investments Limited, the Company issued 119,000,000 ordinary shares on 5 April 2013 as partial payment of the acquisition consideration. The fair value of the ordinary shares issued was determined by the available published price of HK$0.57 each at the completion date of the acquisition on 5 April 2013.

(c) Pursuant to a placing agreement entered into with Kingston Securities Limited dated 25 July 2013, the Company placed out 109,000,000 new ordinary shares of par value of HK$0.10 each at HK$0.33 per share to an independent third party. Net proceeds from such issue amounted to approximately HK$35,380,000 (after deducting the placement expenses of approximately HK$590,000), out of which approximately HK$10,900,000 and HK$25,070,000 were recorded in share capital and share premium respectively. The placing was completed on 13 August 2013. The net proceeds were fully utilised as general working capital of the Company.

(d) Pursuant to a placing agreement entered into with Kingston Securities Limited dated 15 May 2014, the Company placed out 200,000,000 new ordinary shares of par value of HK$0.10 each at HK$0.201 per share to independent third parties. Net proceeds from such issue amounted to approximately HK$39,724,000 (after deducting the placement expenses of approximately HK$476,000), out of which approximately HK$20,000,000 and HK$19,724,000 were recorded in share capital and share premium respectively. The placing was completed on 29 May 2014. The net proceeds were intended to be used for the general working capital of the Company.

32. Share option schemes

Pursuant to a resolution passed at a annual general meeting of the Company held on 19 December 2012, a new share option scheme (the "**New Share Option Scheme**") was adopted by the Company.

The previous share option scheme of the Company (the "**Old Share Option Scheme**") was expired on 21 July 2012, no further options can be granted under the Old Share Option Scheme thereafter. All outstanding share options granted under the Old Share Option Scheme remained outstanding until they lapsed in accordance with the terms of the Old Share Option Scheme.

The Company operates the New Share Option Scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Share Option Scheme include the Company's directors (including independent non-executive directors), other employees of the Group, and suppliers of goods or services to the Group.

The maximum number of unexercised share options currently permitted to be granted under the New Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the New Share Option Scheme within any 12 month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the offer of the share options or the expiry date of the New Share Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's share for five trading days immediately preceding the date of the offer; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholder's meeting. The following table discloses details of the Company's share option in issue under the Scheme during the year:

Name of category of participant	Date of grant	Exercise period	Exercise price per share	Number of share options: Outstanding at 1 July 2012	Granted during the period	Lapsed during the period	Reallocated *(Note a)*	At 31 December 2013 and 1 January 2014	Lapsed during the year	At 31 December 2014
Directors	8.4.2011	8.4.2011 to 7.4.2021	1.070	15,000,000	–	–	–	15,000,000	(15,000,000)	–
	3.4.2013	3.4.2013 to 2.4.2018	0.628	–	54,000,000	–	(20,000,000)	34,000,000	(14,000,000)	20,000,000
				15,000,000	54,000,000	–	(20,000,000)	49,000,000	(29,000,000)	20,000,000
Employee and others	8.4.2011	8.4.2011 to 7.4.2021	1.07	85,000,000	–	(50,000,000)	–	35,000,000	(32,000,000)	3,000,000
	3.4.2013	3.4.2013 to 2.4.2018	0.628	–	40,000,000	–	20,000,000	60,000,000	(20,000,000)	40,000,000
	16.5.2013	16.5.2013 to 15.5.2018	0.628	–	20,000,000	–	–	20,000,000	(10,000,000)	10,000,000
				85,000,000	60,000,000	(50,000,000)	20,000,000	115,000,000	(62,000,000)	53,000,000
Total				100,000,000	114,000,000	(50,000,000)	–	164,000,000	(91,000,000)	73,000,000
Weighted average exercise price *(HK$)*				1.070	0.628	1.070	0.628	0.732	0.856	0.646

Notes:

(a) Mr. Li Hongrong resigned on 21 June 2013 and his options had been reallocated to "others" after his resignation he is still a consultant of the Company.

The fair values of options granted under the New Share Option Scheme measured at the date of grant during the period ended 31 December 2013 was approximately HK$30,490,000. The following significant assumptions were used to derived the fair value using the Binomial Option Pricing Model:

	16 May 2013	**3 April 2013**
Total number of share option	20,000,000	94,000,000
Option value	HK$0.2045	HK$0.2809
Option life	5 years	5 years
Expected Tenor	5 years	5 years
Exercise price	HK$0.628	HK$0.628
Stock price at the date of grant	HK$0.460	HK$0.600
Expected volatility	87.11%	88.00%
Risk-free rate	0.427%	0.525%

Expected volatility was reference to Bloomberg calculated from the weighted average historical volatility of weekly return of share price of comparable companies and the Company. Risk-free rate represents the yields to maturity of Hong Kong Exchange Fund Note with respective terms to maturity as at the share options granted date. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considers.

No share options was exercised for both 12 months ended 31 December 2014 and 18 months ended 31 December 2013.

33. Warrants

On 5 November 2012, the Company entered into warrant subscription agreements with six independent third parties ("**Group A Subscribers**"), pursuant to which the Company agreed to issue and Group A Subscribers agreed to subscribe for an aggregate of 200,000,000 unlisted warrants at an issue price of HK$0.01 per warrant ("**Warrants (A)**"). Each of Warrants (A) carries the right to subscribe for one new share of the Company at the initial exercise price of HK$0.54 per share (subject to adjustment) during a period of two years commencing from (and inclusive of) 5 December 2012, the date of issue of Warrants (A).

On 3 December 2012, the Company entered into warrant subscription agreements with another six independent third parties ("**Group B Subscribers**"), pursuant to which the Company agreed to issue and Group B Subscribers agreed to subscribe for an aggregate of 254,000,000 unlisted warrants at an issue price of HK$0.05 per warrant ("**Warrants (B)**"). Each of Warrants (B) carries the right to subscribe for one new share of the Company at the initial exercise price of HK$0.59 per share (subject to adjustment) during a period of two years commencing from (and inclusive of) 21 December 2012, the date of issue of Warrants (B).

Net proceeds from these issue amounted to approximately HK$14,600,000 (after deducting the related expenses of approximately HK$100,000) were recorded in warrant reserve.

Warrants (A) and Warrants (B) lapsed on 4 December 2014 and 20 December 2014 respectively, and the warrant reserve was released accordingly.

34. Acquisition of subsidiaries

For the eighteen months ended 31 December 2013

(a) Acquisition of Hughes China Group

Pursuant to the announcement of the Company dated 8 January 2013, the Company has entered into an agreement with Oberlin Asia Inc (the "**Hughes China Vendor**") on 7 January 2013 which the Hughes China Vendor conditionally agreed to sell to the Company the entire issued share capital of Hughes China Group at a consideration of HK$273,000,000.

Hughes China Group is principally engaged in development of internet technology and satellite communication technology as well as trading in satellite communication system devices. The acquisition would enhance the Group's market shares and business development in the sale of telecommunication products and services.

The acquisition was completed on 5 April 2013. The net assets acquired and the goodwill arising are as follows:

	Pre-acquisition carrying amount *HK$'000*	**Fair value adjustment** *HK$'000*	**Fair value** *HK$'000*
Net assets acquired of			
Property, plant and equipment	4,781	–	4,781
Interests in an associate	335	–	335
Intangible assets	–	58,967	58,967
Trade receivable	100	–	100
Prepayments, deposits and other receivables	3,383	–	3,383
Inventory	853	–	853
Cash and cash equivalents	3,428	–	3,428
Amount due to an associate	(10)	–	(10)
Trade payable	(5,224)	–	(5,224)
Other payable and accruals	(1,365)	–	(1,365)
Receipt in advance	(541)	–	(541)
Deferred taxation	–	(14,741)	(14,741)
Non-controlling interests	(2,778)	(24,324)	(27,102)
Total identifiable net assets acquired			22,864
Goodwill on acquisition			211,838
			234,702

Goodwill arose in the acquisition of Hughes China Group because the cost of the 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 Hughes China Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

The consideration of the acquisition will be satisfied by way of (i) cash in the amount of HK$27,320,000, (ii) allotment and issue of 119,000,000 consideration shares at HK$0.72 each at an aggregate value of HK$85,680,000 and (iii) issue of convertible notes in principal amount of HK$160,000,000 to the Hughes China Vendor.

	Fair value
	HK$'000
Consideration satisfied by:	
Cash	27,320
Consideration shares	67,830
Fair value of convertible notes	139,552
	234,702
Net cash outflow arising on the acquisition	
Consideration paid in cash	(27,320)
Cash and cash equivalents acquired	3,428
	(23,892)

Acquisition-related costs of approximately HK$5,917,000 have been charged as "**administrative and other expenses**" in the consolidated statement of profit or loss and other comprehensive income for the 18 months ended 31 December 2013.

Since the acquisition, Hughes China Group contributed approximately HK$8,746,000 and HK$3,152,000 the Group's revenue and loss for the 18 months ended 31 December 2013 respectively.

(b) Acquisition of CERNET Wifi Group

Pursuant to the announcement of the Company dated 25 January 2013, the Company entered into an agreement with Lucky Smile Enterprises Limited (the "**CERNET Wifi Vendor**") on 25 January 2013 which the CERNET Wifi Vendor conditionally agreed to sell to the Company the entire issued share capital of CERNET Wifi Group 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.

CERNET Wifi Group is principally engaged in the provision of personal broadband access services for China education and research network of China Ministry of Education ("**CERNET**"), including the construction and operation of individual broadband access network, the development of Internet content and the provision of value-added telecommunication services in all higher educational institutions that are connected to CERNET. The acquisition would enhance the Group's market shares and business development in the sale of telecommunication products and services.

The acquisition was completed on 24 April 2013. The net assets acquired and the goodwill arising are as follows:

	Pre-acquisition carrying amount	**Fair value adjustment**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired of			
Intangible assets	–	100,160	100,160
Trade receivable	696	–	696
Prepayments, deposits and other receivables	11,405	–	11,405
Financial assets at fair value through profit or loss	31,460	–	31,460
Cash and cash equivalents	15,136	–	15,136
Trade payable	(3,600)	–	(3,600)
Other payable and accruals	(4,259)	–	(4,259)
Deferred taxation	–	(25,040)	(25,040)
Non-controlling interests	(11,622)	(18,780)	(30,402)
Total identifiable net assets acquired			95,556
Goodwill on acquisition			67,648
			163,204

Goodwill arose in the acquisition of CERNET Wifi Group because the cost of the 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 CERNET Wifi Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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

The consideration will be settled by cash and issue of consideration shares by the Company.

	Fair value
	HK$'000
Consideration satisfied by:	
Cash	69,617
Contingent consideration payable *(Note)*	93,587
	163,204
Net cash outflow arising on the acquisition	
Consideration paid in cash	(69,617)
Cash and cash equivalents acquired	15,136
	(54,481)

Note: Depending on the number of the upcoming subscribers of the personal broadband access services (the "**Users**") of the CERNET Wifi Group, the potential undiscounted future payments that the Group could be required to make under this arrangement is capped at HK$124,783,200, and shall be payable by the Group in installments by way of the issue of an aggregate maximum of 173,310,000 consideration shares if the number of the Users reaches 400,000 within one year from the date of acquisition. The fair value of the amount payable of HK$93,587,000 was recognised as contingent consideration payable at the date of acquisition and remeasured at the end of the reporting period. During the 18 months ended 31 December 2013, a gain of HK$93,587,000 was recognised in the profit or loss for the changes in fair values of contingent consideration payable.

Acquisition-related costs of approximately HK$2,307,000 have been charged as "**administrative and other expenses**" in the consolidated statement of profit or loss and other comprehensive income for the 18 months ended 31 December 2013.

Since the acquisition, CERNET Wifi Group contributed approximately HK$14,267,000 and HK$8,913,000 the Group's revenue and loss for the 18 months ended 31 December 2013 respectively.

Had the Hughes China Group and CERNET Wifi Group combinations taken place to the Group at the beginning of the 18 months ended 31 December 2013, the revenue and the loss of the Group for the 18 months ended 31 December 2013 would have been approximately HK$85,863,000 and HK$341,787,000 respectively. The pro forma information is for illustrative purpose 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 on 1 July 2012, nor is it intended to be a projection of future results.

35. Disposal of subsidiaries

Pursuant to the Company's circular dated 13 July 2012, the Company entered into a sale agreement with a Purchaser in respect of the disposal of 100% equity interests in Getbetter Group and B&S Group at a consideration of HK$8,000,000, payable in cash (the "**Disposal**"). The principal activities of Getbetter Group and B&S Group are engaged in the production and sales of videos and films, the licensing of video and copyrights/films rights and artiste management. The Disposal was completed on 28 September 2012 when control of the Getbetter Group and B&S Group were passed to the Purchaser.

On 28 September 2012, the Group completed disposal of the Disposal Group, the net liabilities of Disposal Group at the date of disposal were as follows:

	B&S Group	**Getbetter Group**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Net liabilities disposed of:			
Film rights, films in progress and film royalty deposits	–	1,827	1,827
Trade receivables	–	5	5
Prepayments, deposit and other receivables	–	20,249	20,249
Amounts due from Gebetter Group	925	–	925
Cash and cash equivalents	5	450	455
Trade payables	(70)	(1)	(71)
Other payables and accruals	(470)	(1,950)	(2,420)
Deposits received	(1,262)	(4,121)	(5,383)
Amounts due to the Group	(45,799)	(91,369)	(137,168)
Amounts due to B&S Group	–	(925)	(925)
	(46,671)	(75,835)	(122,506)

	Total
	HK$'000
Gain on disposal of subsidiaries:	
Cash consideration received and receivables	8,000
Impairment loss recognised during the year ended 30 June 2012	7,142
Waiver of loans granted	(137,168)
Net liabilities disposed of	122,506
	480
Net cash inflow arising on disposal:	
Cash consideration	8,000
Less: Cash and cash equivalents disposed of	(455)
	7,545

The impact of Getbetter Group and B&S Group on the Group's results and cash flows in the current and prior year in disclosed in Note 14.

36. De-consolidation of a subsidiary

As mentioned in note 3 to the consolidated financial statements, the Group's subsidiary 賽爾無線網絡科技(北京)有限公司 has been de-consolidated from the consolidated financial statements of the Group as from 1 January 2014.

Details of the aggregate net assets of the abovementioned subsidiary are set out below:

	HK$'000
Property, plant and equipment	29,207
Goodwill	67,648
Intangible assets	100,160
Trade receivables	2,533
Prepayments, deposits and other receivables	2,585
Cash and cash equivalents	8,368
Other payables and accruals	(545)
Deferred taxation	(25,040)
	184,916
Translation reserve	(355)
Non-controlling interests	(10,537)
Net loss on de-consolidation of a subsidiary	174,024
Analysis of net outflow of cash and cash equivalents arising from de-consolidation of a subsidiary	8,368

Reference is made to the announcements of the Company dated 19 December 2014 and 20 March 2015, the abovementioned subsidiary has several legal proceedings undergoing. As at the date of this report, the outcome of the legal proceedings remained uncertain. As the abovementioned subsidiary has been de-consolidated, the Directors considered the legal proceedings will not have any adverse impact on the consolidated financial statements.

However, after taking into the consideration of i) the factors leading to the de-consolidation of abovementioned subsidiary as stated in Note 3 to the consolidated financial statements; and ii) the uncertainties brought by the abovementioned legal proceedings, the management has decided to fully write off the investment cost of CERNET Wifi Group amounting to HK$163,204,000 (Note 34(b)) as included in the statement of financial position of the Company (Note 41).

37. Operating leases

The Group as Lessee

Minimum lease payments paid under operating leases in respect of office premises from continuing and discontinued operations during the period amounting to approximately HK$6,118,000 (for the 18 months ended 31 December 2013: HK$7,269,000).

Operating lease payments represent rentals payables by the Group for certain of its office premises. Leases are negotiated for a term of two years (for the 18 months ended 31 December 2013: two years) with a fixed rentals during the year ended 31 December 2014. None of the leases included contingent rentals and terms of renewal were established in the leases.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	31 December 2014	**31 December 2013**
	HK$'000	*HK$'000*
Within one year	3,673	1,548
In the second to fifth years inclusive	1,560	2,310
	5,233	3,858

38. Capital commitments

	31 December 2014	**31 December 2013**
	HK$'000	*HK$'000*
Commitments contracted for but not provided in the consolidated financial statements in respect of		
– Acquisition of property, plant and equipment	6,639	–

39. Major non-cash transaction

For the 18 months ended 31 December 2013

(a) On 5 April 2013, the Group completed the acquisition in the Hughes China Group upon the fulfillment of all conditions as set out in the sales and purchase agreement. The consideration of approximately HK$67,830,000 and HK$139,552,000 were satisfied by the Company's ordinary shares and issue of convertible notes. As part of the consideration, 119,000,000 new ordinary shares of the Company with par value of HK$0.01 each were issued on 5 April 2013 as the consideration shares. The fair value of ordinary shares issued was determined by referring to the published price of HK$0.57 per share at the date of the acquisition. For detail, please refer to Note 34 to the consolidated financial statements.

(b) During the 18 months ended 31 December 2013, the Group has granted share options to certain directors and eligible participants of approximately HK$30,490,000.

40. Subsidiaries

Particulars of the principal subsidiaries at 31 December 2014 are as follows:

Name of subsidiary	Class of shares held	Place of incorporation and kind of legal entity	Nominal value of authorised share capital	Normal value of paid up issued share capital	Attributable equity interests attributable to the Company Directly	Indirectly	Principal activities
上海子睿投資咨詢有限公司	Ordinary	PRC, limited liability company	RMB500,000	RMB500,000	–	70%	Investment consultancy
上海大三和弘城市環境藝術有限公司	Ordinary	PRC, limited liability company	RMB11,000,000	RMB11,000,000	–	51.1%	Design and production of traffic signboards and computer graphics, advertisements and signal systems equipment
廣東兆鴻通信技術有限公司	Ordinary	PRC, limited liability company	RMB10,000,000	RMB10,000,000	–	100%	Sale of telecommunication products and services
北京天一金網科技有限公司*	Ordinary	PRC, limited liability company	RMB3,980,000	RMB3,980,000	–	100%	Investment holding

Name of subsidiary	Class of shares held	Place of incorporation and kind of legal entity	Nominal value of authorised share capital	Normal value of paid up issued share capital	Attributable equity interests attributable to the Company Directly	Indirectly	Principal activities
賽爾無線網絡科技(北京)有限公司*	Ordinary	PRC, limited liability company	RMB40,000,000	RMB40,000,000	–	75%	Provision of personal broadband access services
休斯網絡技術(北京)有限公司*	Ordinary	PRC, limited liability company	RMB10,000,000	RMB10,000,000	–	45%	Sale of telecommunication products and services
北京中衛匯通網絡系統技術有限公司*	Ordinary	PRC, limited liability company	RMB10,000,000	RMB10,000,000	–	45%	Provision of VSAT communication services

* Subsidiaries acquired during the eighteen months ended 31 December 2013. Further details of acquisition are included in Note 34.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Details of non-wholly owned subsidiaries of the Group that have material non-controlling interests

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion ownership interests and voting rights held by non-controlling interest		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
上海大三和弦城市環境藝術有限公司	PRC	48.9%	48.9%	40,808	1,067	13,623	54,431
Hughes UnifiedNet Holding (China) Company Limited and its subsidiaries *(Note)*	Hong Kong	55%	55%	5,139	7,174	14,796	19,935
Individually immaterial subsidiaries with non-controlling interests						(46)	30,122
						28,373	104,488

Note:

The subsidiaries are all wholly owned by Hughes UnifiedNet Holding (China) Company Limited during the twelve months ended 31 December 2014 and the eighteen months ended 31 December 2013.

Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

上海大三和弦城市環境藝術有限公司

	31 December 2014 HK$'000	31 December 2013 HK$'000
Current assets	15,408	27,769
Non-current assets	12,863	86,469
Current liabilities	(412)	(2,928)
Non-current liabilities	–	–
Equity attributable to owners of the Company	14,326	56,879
Non-controlling interests	13,623	54,431

	12 months ended 31 December 2014 HK$'000	18 months ended 31 December 2013 HK$'000
Revenue	1,047	21,000
Expenses	(84,499)	(23,181)
Loss for the year/period	(83,452)	(2,181)
Loss for the year/period attributable to owners of the Company	(42,329)	(596)
Loss for the year/period attributable to the non-controlling interests	(40,507)	(572)
Loss for the year/period	(82,836)	(1,168)
Other comprehensive loss attributable to owners of the Company	(313)	(518)
Other comprehensive loss attributable to the non-controlling interests	(301)	(495)
Other comprehensive loss for the year/period	(616)	(1,013)

	12 months ended 31 December 2014 *HK$'000*	18 months ended 31 December 2013 *HK$'000*
Total comprehensive loss attributable to owners of the Company	(42,644)	(1,114)
Total comprehensive loss attributable to the non-controlling interests	(40,808)	(1,067)
Total comprehensive loss for the year/period	(83,452)	(2,181)
Net cash inflow from operating activities	14,094	68,749
Net cash outflow from investing activities	(14,579)	(74,022)
Net cash inflow from financing activities	–	–
Net cash outflow	(485)	(5,273)

Hughes UnifiedNet Holding (China) Company Limited and its subsidiaries

	31 December 2014 *HK$'000*	31 December 2013 *HK$'000*
Current assets	15,244	5,815
Non-current assets	57,111	49,535
Current liabilities	(38,648)	(7,764)
Non-current liabilities	(6,804)	(11,340)
Equity attributable to owners of the Company	12,106	16,311
Non-controlling interests	14,796	19,935

	12 months ended 31 December 2014	18 months ended 31 December 2013
	HK$'000	*HK$'000*
Revenue	34,036	9,144
Expenses	(43,380)	(22,187)
Loss for the year/period	(9,344)	(13,043)
Loss for the year/period attributable to owners of the Company	(4,185)	(5,866)
Loss for the year/period attributable to the non-controlling interests	(5,114)	(7,170)
Loss for the year/period	(9,299)	(13,036)
Other comprehensive loss attributable to owners of the Company	(20)	(3)
Other comprehensive loss attributable to the non-controlling interests	(25)	(4)
Other comprehensive loss for the year/period	(45)	(7)
Total comprehensive loss attributable to owners of the Company	(4,205)	(5,869)
Total comprehensive loss attributable to the non-controlling interests	(5,139)	(7,174)
Total comprehensive loss for the year/period	(9,344)	(13,043)
Net cash inflow/(outflow) from operating activities	37,715	(2,955)
Net cash (outflow)/inflow from investing activities	(28,189)	40
Net cash inflow from financing activities	–	–
Net cash outflow	(7,526)	(2,915)

41. Statement of financial position

	31 December 2014 *HK$'000*	31 December 2013 *HK$'000*
Non-current assets		
Property, plant and equipment	226	388
Investment in subsidiaries	120,513	571,641
	120,739	572,029
Current assets		
Prepayments, deposits and other receivables	5,229	60,844
Amounts due from subsidiaries	53,506	7,102
Derivative financial assets	–	711
Cash and cash equivalents	6,242	552
	64,977	69,209
Current liabilities		
Other payables and accruals	47,376	33,422
Amounts due to subsidiaries	9,706	8,283
	57,082	41,705
Net current assets	7,895	27,504
Non-current liability		
Convertible notes	148,768	142,240
Net (liabilities)/assets	(20,134)	457,293
Capital and reserves		
Share capital	275,492	255,492
Reserves	(295,626)	201,801
Total equity	(20,134)	457,293

42. Connected and related party transactions

Save as disclosed elsewhere in the consolidated financial statements, the Group entered into the following material transaction with connected and related parties during the year/ period.

Compensation of key management personnel

The remuneration of directors and key executives was stated in Note 15, which is determined by the remuneration committee having regard to the performance of individual and market trends.

Acquisition of property, plant and equipment

中新賽爾(深圳)網絡通信技術有限公司 (the "**Purchaser**"), a wholly-owned subsidiary of the Company, and 佛山源海發展有限公司 (the "**Vendor**") entered into the property acquisition agreements on 28 August 2014, pursuant to which the Purchaser had agreed to purchase and the Vendor had agreed to sell the four office units, namely room 1601, room 1602, room 1603 and room 1604 of Block 4, Tower 1 located at Smart City, No. 1 Zhi Hui Road, Chan Cheng District, Foshan, the PRC (the "**Properties**") at the aggregate consideration of RMB17,316,880.

As at 31 December 2014, deposit of RMB17,316,880 (equivalent to approximately HK$21,693,000) were paid to the Vendor as deposit for the acquisition of property, plant and equipment (31 December 2013: HK$nil).

The Vendor is substantially owned by Mr. Lie, a substantial shareholder of the Company. The Vendor, being an associate of Mr. Lie, is therefore a connected person of the Company under the Rule 20.07(1) of the GEM Listing Rules. Accordingly, the transactions contemplated under the property acquisition agreements constituted a connected transaction of the Company under Chapter 20 of the GEM Listing Rules.

43. Contingent liabilities

Pending Litigations

Reference is made to the announcement of the Company on 15 October 2014 regarding the receipt of the Winding-up Petition by the Company on 15 October 2014, presented by Beyond Net Service Limited (the "**Petitioner**") at the Court of First Instance of the High Court of the Hong Kong Special Administrative Region (the "**High Court**") against the Company. The Winding-up Petition concerns a sum of HK$3,067,500 (the "**Claim**"), being the amount of a cheque issued by the Company on behalf of Cloud Computing Investment Limited ("**Cloud Computing**"), a wholly-owned subsidiary of the Company, to the Petitioner pursuant to a consultancy agreement entered into between the Petitioner and Cloud Computing on 1 August 2012 (the "**Consultancy Agreement**"). In accordance with the Consultancy Agreement, the Petitioner should provide certain consultation to Cloud Computing within one year from the date of the agreement but the Petitioner has failed to do so. Having reviewed the details of the Winding-up Petition and the relevant facts, the Company has instructed its legal advisers to apply for striking out and dismissal of the Winding-up Petition, which was heard at the High Court on 4 May 2015. The application for dismissal of the Winding-up Petition was not successful; and the Company has instructed its legal advisers to lodge an appeal against the decision of the High Court. The appeal is scheduled to be heard by the Court of Appeal on 8 October 2015.

The Company has further instructed its legal advisers to advise and take action on behalf of Cloud Computing against the Petitioner on the Petitioner's failure to perform the Consultancy Agreement. Legal action has accordingly been commenced in the High Court on 5 December 2014 on behalf of Cloud Computing against the Petitioner.

Provision had been made regarding the Claim in the consolidated financial statements.

44. Events after the reporting period

On 30 January 2015, NEO Mobile Holdings Limited ("**NEO Mobile**") and an independent third party (the "**Vendor**") entered into an agreement regarding Guangdong Wei Hai Xiao Yuan Mobile Network Company Limited* (《關於廣東蔚海校園移動網絡有限公司的協議》)(the "**Agreement**"). Pursuant to the Agreement, the Vendor has conditionally agreed to execute and procure the execution of certain structured contracts (the "**Structured Contracts**") and NEO Mobile has conditionally agreed to procure the issuance and allotment of 303,000,000 ordinary shares of the Company to the Vendor at HK$0.33 per Share with the total subscription price of HK$99,990,000.

As at the date of this report, the transactions contemplated under the Agreement have not been completed.

45. Contingent consideration payable

As stated in Note 34(b), the Group has completed the CERNET Wifi Group acquisition at a total consideration of HK$163,204,000 on 24 April 2013 ("**Completion Date**"). Pursuant to the acquisition agreement, the consideration should be settled by cash of approximately HK$69,617,000 and an aggregate maximum amount 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 the Users reaches 400,000 within one year from the Completion Date.

The Company shall review (the "**Review**") the performance of the Business of the CERNET Wifi every three months during the one year from the Completion Date. The Company shall pay a portion of the Variable Consideration to the CERNET Wifi Vendor by way of the issue of such number of the Consideration Shares at HK$0.72 per Consideration Share.

At 24 April 2013, based on the directors' best estimation, the fair value of amount payable of HK$93,587,000 was recognised as contingent consideration payable as stated in Note 34(b).

At 31 December 2013, the Company performed the Review on the actual performance of the CERNET Wifi Group, a fair value gain of HK$93,587,000 was recognised as the result of Review.

At 23 April 2014, the Company completed the last Review on the actual performance of CERNET Wifi Group, no Consideration Shares were issued.

46. Approval for consolidated financial statements

The consolidated financial statements were approved and authorised for issue by the board of directors on 27 March 2015.

4. STATEMENT OF INDEBTEDNESS

At the close of business on 31 July 2015, being the latest practicable date for the purpose of ascertaining information contained in this statement of indebtedness prior to the printing of this circular, the Group had outstanding debt instruments and commitments, details of which are as follows:

Borrowings

As at the close of business on 31 July 2015, the Group had outstanding borrowings of (i) loan from a substantial shareholder of HK$70,064,000 which is unsecured and interest-bearing at 5% per annum, (ii) a short term loan of HK$27,320,000 which is unsecured and interest-bearing at 1.2% per month, and (iii) convertible notes of carrying amount and principal amount of approximately HK$154,463,000 and HK$160,000,000 respectively.

Contingent liabilities

As at the close of business on 31 July 2015, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group has the following pending litigations:

(a) Winding-up petition

Reference is made to the announcement of the Company dated 15 October 2014 regarding the receipt of a winding-up petition (the "Winding-up Petition") by the Company on 15 October 2014, presented by Beyond Net Service Limited (the "Petitioner") at the Court of First Instance of the High Court of Hong Kong (the "High Court") against the Company.

The Winding-up Petition concerns a sum of HK$3,067,500 (the "Claim"), being the amount of a cheque issued by the Company on behalf of Cloud Computing Investment Limited ("Cloud Computing"), a wholly owned subsidiary of the Company, to the Petitioner pursuant to a consultancy agreement entered into between the Petitioner and Cloud Computing on 1 August 2012 (the "Consultancy Agreement"). In accordance with the Consultancy Agreement, the Petitioner should provide certain consultation and services to Cloud Computing within one year from the date of the agreement but the Petitioner has failed to do so.

Having reviewed the details of the Winding-up Petition and the relevant facts, the Company has instructed its legal advisers to apply for striking out and dismissal of the Winding-up Petition (the "Application"), which was heard at the High Court on 4 May 2015, and the Company received on 12 May 2015 the decision (the "Decision") from the High Court that the Application has failed. The Company has instructed its legal advisers to appeal the Decision.

The appeal will be heard on 8 October 2015. The Company has further instructed its legal advisers to advise and take action on behalf of Cloud Computing against the Petitioner on the Petitioner's failure to perform the Consultancy Agreement. Pursuant to such instructions, the legal adviser has issued a High Court Action on 5 December 2014 against the Petitioner.

The Group had made full provision regarding the Claim in its consolidated financial statements.

(b) 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 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 the 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 advisers to contest and defend the Action.

(c) Asset Leasehold Arbitration claim

Reference is made to the announcement the Company dated 19 December 2014 in relation to the application by CERNET Wifi to the China International Economic And Trade Arbitration Commission (中國國際經濟貿易仲裁委員會)(the "CIETAC") to claim against 賽爾網絡有限公司 (CERNET Company Limited) ("CCL") and 賽爾投資有限公司 (CERNET Investment Company Limited*) ("CERNET Investment") for, *inter alia*, an amount of RMB22,529,555, being the benefits after deduction of tax generated from the assets leased by CCL and CERNET Investment to CERNET Wifi pursuant to the Asset Leasehold Agreement (the "Asset Leasehold Arbitration").

On 5 February 2015, CERNET Wifi received a counter claim from CCL and CERNET Investment claiming for, *inter alia*, a total amount of RMB26,528,148.

On 13 February 2015, in addition to the claims made in the Asset Leasehold Arbitration, CERNET Wifi has further claimed against CCL and CERNET Investment for, *inter alia*, (i) the continuation of the Asset Leasehold Agreement and (ii) the benefits after deduction of tax generated from the assets leased by CCL and CERNET Investment to CERNET Wifi since 1 October 2014.

On 4 June 2015, CCL and CERNET Investment revised their counter claim amount to RMB17,786,802.

On 15 June 2015, CERNET Wifi further revised its claim amount to RMB23,330,550.

CIETAC has deferred its decision to 12 September 2015 in order to gather more information before arriving at a conclusion.

CERNET Wifi's PRC legal advisor is of the opinion that the outcome of the Asset Leasehold Arbitration will be based upon calculation and settlement of cost, revenue and benefits under the Asset Leasehold Agreement. As such, as at the date of this report, the outcome is uncertain.

(d) Common Seal and Documents Claim

On 12 January 2015, CERNET Wifi filed a claim against the former general manager of CERNET Wifi (the "Former GM"), in 北京市海淀區人民法院 (Beijing Haidian District People's Court*) (the "Beijing Haidian Court") for, *inter alia*, the return of CERNET Wifi's common seal, contract chop, business registration, and license to carry out value-added telecommunication business ("CERNET Wifi's Documents"). On 17 November 2014, the Former GM was dismissed in response to CERNET Wifi's declining business by way of board resolution passed by the CERNET Wifi's board. On 5 December 2014, CERNET Wifi passed a shareholders' resolution that CERNET Wifi's Documents be under the custody of CERNET Wifi's legal representative, Mr. Zhang Xinyu, a director of the Company. On 26 December 2014, CERNET Wifi requested the Former GM for the return of CERNET Wifi's Documents but the Former GM had failed to do so. Beijing Haidian Court issued the judgement on 18 March 2015, pursuant to which the Former GM shall return CERNET Wifi's common seal, contract chop and business registration and its duplicate.

The Former GM has brought the claim to 北京市第一中級人民法院 (Beijing No.1 Intermediate People's Court*) as an appeal to the Beijing Haidian Court's decision. On 21 May 2015, Beijing No.1 Intermediate People's Court issued the final judgement and upheld the original judgement.

(e) Labour Arbitration Claim

On 12 January 2015, notices of claim of 69 former employees of CERNET Wifi were served on CERNET Wifi by 北京市海淀區勞動人事爭議仲裁委員會 (Haidian District Labour Dispute Arbitration Committee of Beijing Municipality*) (the "HDLDAC") pursuant to which, the applicants claimed for the amount of RMB1,361,993.57, being the salary, over-time payment, meals fee, disbursement, annual leave fee, and dismissal fees payable by CERNET Wifi. CERNET Wifi has counter-claimed against 34 applicants for the return of company properties and payment of commissions (the "Labour Arbitration Claim").

The HDLDAC rendered its decision with respect to the Labour Arbitration Claim and CERNET Wifi has brought the claim to the Beijing Haidian Court as an appeal to the HDLDAC's decision.

On 19 May 2015, The Beijing Haidian Court upheld the decision rendered by HDLDAC. CERNET Wifi has brought the claim to Beijing No.1 Intermediate People's Court as an appeal to the Beijing Haidian Court's decision.

Since CERNET Wifi had been de-consolidated from the Group's consolidated financial statements from 1 January, 2014, no provision regarding the Asset Leasehold Arbitration claim and the Labour Arbitration Claim, if any, has been included in statement. Except for the above mentioned pending litigations, the Group did not have any material contingent liabilities as at 31 July 2015.

Disclaimer

Save for the aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, mortgages, charges or debentures, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills and payables), acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31 July 2015.

5. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources available to the Group including internally generated funds and the estimated net proceeds from the Open Offer (if the Open Offer become unconditional), the Group will have sufficient working capital for its present requirements, that is for at least the next twelve months from the date of publication of the circular, in the absence of unforeseeable circumstances.

6. MATERIAL CHANGE

Save and except as disclosed below, there has been no material change in the financial and trading position or outlook of the Group since 31 December 2014, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date:

1) As disclosed in the interim results announcement for the six months ended 30 June 2015 (the "**6-month period of FY2015**") published by the Company on 13 August 2015 (the "**Interim Results Announcement**"), there have been certain material changes in the financial or trading position or outlook of the Group since 31 December 2014 and, in particular, the Directors note as follows:

   (a) the Group recorded a loss after tax for the 6-month period of FY2015 amounting to approximately HK$31.9 million, as compared to a loss after tax of approximately HK$46.2 million for the corresponding period in 2014;

   (b) the carrying amount of the Convertible Notes liability component of approximately HK$152.8 million was stated in the current liabilities as at 30 June 2015, as compared to approximately HK$148.8 million in the non-current liabilities as at 31 December 2014. The principal amount of HK$160 million remains outstanding and payable by 5 April 2016;

   (c) net current liabilities of the Group increased to approximately HK$194.5 million as at 30 June 2015 from approximately HK$46.8 million as at 31 December 2014. This was mainly attributable to the Convertible Notes liability component recorded in the current liabilities and the loan from a substantial shareholder as stated in (b) above and (6) below;

   (d) the shareholders' equity has improved from a negative shareholders' equity of approximately HK$103.1 million as at 31 December 2014 to a positive shareholders' equity of approximately HK$15.3 million as at 30 June 2015. This was mainly attributable to an issue of new 303 million Shares as consideration for the acquisition of Guangdong Bluesea Mobile Development Ltd Co.* ("**Bluesea Mobile**") on 1 April 2015 and an issue of 20 million new Shares on 8 June 2015 upon exercise of share options granted by the Company as announced in the next day disclosure return of the Company on 19 June 2015;

(e) the intangible assets increased to approximately HK$145.6 million as at 30 June 2015 as compared to approximately HK$59.2 million as at 31 December 2014 as the Group acquired intangible assets amounting to approximately HK$100 million through acquisition of new subsidiaries; and

(f) cash position improved to approximately HK$60.9 million as at 30 June 2015 as compared to approximately HK$31.7 million as at 31 December 2014, mainly attributable to the loan of approximately HK$70.1 million advanced from a substantial shareholder and the proceeds of approximately HK$12.6 million from issue of 20 million new Shares on 8 June 2015 upon the exercise of share options;

2) the Group completed two material acquisition/transaction in the 6 months period of 2015. As announced by the Company on 30 January 2015, Neo Mobile Holdings Limited ("**Neo Mobile**"), a wholly-owned subsidiary of the Company, entered into an agreement on 30 January 2015 with Ms. Ye Weiping ("**Ms. Ye**") where the Company agreed to issue new Shares to Ms. Ye and Ms. Ye agreed to execute and procure the execution of a series of structured contracts for Neo Mobile to acquire the control of Bluesea Mobile *(formerly known as Guangdong Wei Hai Xiao Yuan Mobile Network Company Limited*)* . As announced by the Company on 1 April 2015 and as disclosed in the Interim Results Announcement, the Group completed the transaction at a fair value of approximately HK$128.8 million on 1 April 2015. Bluesea Mobile is principally engaged in the operation of a mobile and internet commercial WIFI platform, and internet data centre, a cross border e-commerce platform and peer to peer lending platform business.

As announced by the Company on 15 June 2015, Bluesea Mobile, a wholly-owned subsidiary of the Company, also entered into an agreement with Shandong Sanxing Group Co., Ltd.* to acquire 43% equity interest of CNCC Logistics Equipment Co., Ltd ("**CNCC Logistics**") for a cash consideration of approximately RMB2.8 million (equivalent to approximately HK$3.5 million) on 15 June 2015. Bluesea Mobile is also required to contribute an additional amount of RMB18.5 million (equivalent to approximately HK$23.1 million as a capital contribution to CNCC Logistics. CNCC Logistics is principally engaged in the design, manufacture and sale of logistics equipment and provision of relevant technical advisory services. The acquisition was completed on 25 June 2015 as disclosed in the Interim Results Announcement;

3) as announced by the Company on 17 August 2015, the Group entered into a sales and purchase agreement with Mr. Lin Mingxin, an Independent Third Party, on 14 August 2015 for the proposed acquisition of the entire issued share capital of Million Ace Limited for a total consideration of HK$240 million to be satisfied in full by the

allotment and issue of 196,721,311 new Shares at an issue price of HK$1.22 per Share. The acquisition was completed on 11 September 2015 as announced by the Company on 11 September 2015;

4) the Group entered into two joint venture arrangement as follows:

(i) as announced by the Company on 24 April 2015, Guangdong Bluesea Technology Development Company Limited* ("**Bluesea Technology**"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement on 24 April 2015 with Shandong Inspur Cloud Computing Industry Investment Company Limited* to establish a joint venture company, namely Guangdong Inspur Bluesea Cloud Computing Company Limited* ("**Guangdong Inspur**"). Bluesea Technology is required to contribute RMB8 million towards the registered capital of Guangdong Inspur of RMB20 million and will own 40% equity interest of Guangdong Inspur;

(ii) as announced by the Company on 31 July 2015, Zhongxin Lianrong (Shenzhen) Information Services Company Limited* ("**Zhongxin Lianrong**"), an indirect wholly-owned subsidiary of the Company, entered into a joint venture agreement on 31 July 2015 with Ningbo Yiren Financial Outsourcing Services Company Limited*, Guangdong Xuanfeng Family Investment LLP* and Mr. Fu Zhe, to establish a joint venture company, namely Shenzhen Mifeng Jinfu Internet Financial Services Company Limited* ("**Shenzhen Mifeng**"). Zhongxin Lianrong is required to contribute RMB13.5 million towards the registered capital of Shenzhen Mifeng of RMB30 million and has contributed RMB4.05 million as initial capital contribution, thus currently owns 45% equity interest of Shenzhen Mifeng.

As the Company currently controls the majority of the board of Directors of Shenzhen Mifeng, the Company has treated Shenzhen Mifeng as its subsidiary for accounting purposes;

5) the Group had capital commitment of approximately HK$6.6 million for property, plant and equipment acquisition and approximately HK$10.1 million for the capital contribution to a joint venture company, namely Guangdong Inspur as at the Latest Practicable Date;

6) as announced by the Company on 11 May 2015, the Group entered into a loan agreement for a loan facility of HK$100 million with Mr. Lie, a substantial Shareholder, on 11 May 2015. The loan facility has been fully utilised as at the Latest Practicable Date. The loan is unsecured, interest bearing at 5% per annum and repayable within one year from the date of drawdown;

7) the top three customers as at the Latest Practicable Date are customers from Bluesea Mobile and Guangdong Avatar Wealth Investment Management Co., Ltd* following the acquisition of the two companies by the Group during the 6-month period of FY2015, as compared to the top 5 customers from HCH Investment Limited and its subsidiaries (collectively, "**Hughes China Group**") for the financial year ended 31 December 2014;

8) as announced by the Company on 19 June 2015, Neo Intelligence Holdings Limited ("**Neo Intelligence**"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding in relation to possible acquisition of 80% equity interest in ACE International Electronics Limited and 80% equity interest in Giant Crown Industries Limited on 19 June 2015. Neo Intelligence paid the vendors a refundable deposit of HK$20 million, which constituted an advance to an entity of the Company under the Listing Rules. The deposit remains un-refunded as at the Latest Practicable Date; and

9) as announced by the Company on 14 June 2015, the Company received a writ of summons, served on the Company's legal adviser, on 11 June 2015 from Arch Capital Limited and Hillgo Asia Limited against the Company as holders for value of two convertible notes in an aggregate principal amount of HK$144 million to claim for the principal amount of HK$144 million together with interest and costs. The Convertible Notes of HK$144 million were issued by the Company in relation to the acquisition of Hughes China Group in April 2013 as part of the consideration payable to Oberlin Asia Inc. (the "**Vendor**"). The Vendor nominated Arch Capital Limited and Hillgo Asia Limited to hold the Convertible Notes of HK$144 million; and it was expressly provided in the Convertible Notes that the notes were non-transferable. The ultimate beneficial ownership of Arch Capital Limited and Hillgo Asia Limited was transferred to Next-Generation Satellite Communications Limited without the knowledge or consent of the Company. The Company was of the position that the transfer was in breach of the provision and therefore the two companies and Next-Generation Satellite Communications Limited are not entitled to claim on the Convertible Notes. The Directors have given instructions to legal adviser to contest and defend the action and to raise a counterclaim against the Vendor.

7. BUSINESS TREND AND PROSPECTS

The Group is principally engaged the sale and distribution of telecommunication products, provision of cable and wireless broadband services, value-added telecommunication services and transmedia advertising service, the operation of peer to peer (P2P) lending platform and cross-border e-commerce business.

As mentioned in the interim report of the Company for the six months ended 30 June 2015, during the period under review, the Group recorded a turnover of approximately HK$17.3 million as compared to approximately HK$19.7million in the corresponding period in 2014, representing a decline of HK$2.4 million or 12%. The Group recorded a loss attributable to owners of the Company of approximately HK$20.5 million during the period under review as compared to HK$40.8 million in the corresponding period in 2014, representing a significant decrease of HK$20.3 million or 50% as compared to the corresponding period of last year. The decrease in turnover was mainly due to i) the de-consolidation of 賽爾無線網絡科技(北京)有限公司 (CERNET Wifi Technology (Beijing) Company Limited*), and ii) decline in performance of satellite-related services; offsetting the revenue contribution of approximately HK$10.8 million from Bluesea Mobile and Avatar, which were acquired by the Group during the period under review. Despite the decline in turnover, the loss attributable to the owners of the Company decreased significantly. Such decrease was driven by the profit stream generated by Bluesea Mobile and Avatar, as well as the fair value gain in derivative financial assets. Meanwhile, expenses in various area were also effectively controlled as a result of the stringent cost control exercised by the management.

Looking ahead, upon the completion of the acquisition of Bluesea Mobile, the Group is positioned to optimize the opportunities in the Internet and big data era, and engage in a mobile Internet commercial WIFI platform, an Internet data center and a cross-border e-commerce platform in the PRC. In the meantime, Guangdong Bluesea Technology, a wholly owned subsidiary of the Company, has set up a joint venture with Inspur Cloud Computing, namely Inspur Weihai, to establish a large cloud computing centre in Southern China. Leveraging Inspur Wihai's foundation and rapid growth in Guangdong as well as its brand awareness, the Group can solidify a business presence in Guangdong.

In the meantime, with the launch of the P2P lending platform business in Avatar, 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 company in China.

For illustrative purposes only, set out below is the unaudited pro forma adjusted consolidated net tangible assets of the Group, as at 30 June 2015, after completion of the Open Offer, as if the Open Offer had taken place on as at 30 June 2015. Although reasonable care has been exercised in preparing the unaudited pro forma financial information, Shareholders who read the information should bear in mind that it is inherently subject to adjustments and, because of its hypothetical nature, may not give a true picture of the financial position of the Group following the Open Offer.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The unaudited pro forma statement of adjusted consolidated net tangible assets (the "Unaudited Pro Forma Financial Information") of the Group attributable to owners of the Company is prepared by the Directors in accordance with Rule 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited to illustrate the effect of the proposed Open Offer of one Offer Share for every two shares held on the record date as if the Open Offer had been completed on 30 June 2015.

The Unaudited Pro Forma Financial Information of the Group is prepared for illustrative purposes only, based on the judgments and assumptions of the Directors, and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group following the Open Offer as at the date to which it is made up or at any future date.

The Unaudited Pro Forma Financial Information of the Group is prepared based on the unaudited condensed consolidated net tangible assets attributable to equity shareholders of the Company as at 30 June 2015 and adjusted to reflect the effect of the Open Offer:

	Unaudited consolidated net liabilities of the Group attributable to owners of the Company as at 30 June 2015	Intangible assets, goodwill and deferred tax liabilities of the Group as at 30 June 2015	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2015	Capitalisation of loan from a substantial shareholder prior to Open Offer	Completion of acquisition and issue of shares	Estimated net proceeds from the Open Offer	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2015 upon completion of Open Offer	Estimated net proceeds from allotment and issue of new shares upon fully exercise of share options and convertible notes	Estimate net proceeds from the Offer Shares allotted and issued to the share options and convertible notes	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 June 2015 upon fully exercise of share options and convertible notes and completion of Open Offer
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*	*(Note 5)*		*(Note 6)*	*(Note 7)*	
Based on the subscription price of HK$0.38 per Offer Share – (A)	(9,739)	(175,220)	(184,959)	100,000	129,836	1,090,817	1,135,694	194,610	43,793	1,374,097
Number of shares outstanding ('000) – (B)			6,155,842				9,528,844			9,879,844
			HK$				*HK$*			*HK$*
Net tangible assets per Share – (A)/(B)			(0.03)				0.12			0.14

Notes:

(1) The unaudited condensed consolidated net liabilities of the Group attributable to owners of the Company as at 30 June 2015 of HK$9,739,000 is extract from the published unaudited interim report of the Company for the six months ended 30 June 2015.

(2) The intangible assets, goodwill and deferred tax liabilities of the Group as at 30 June 2015 of approximately HK$145,642,000, HK$58,720,000 and HK$29,142,000 respectively are extracted from the published unaudited interim report of the Company for the six months ended 30 June 2015.

(3) The loan from a substantial shareholder of approximately HK$100,000,000 includes loan principal of approximately HK$100,000,000 as at 11 August 2015, extracted from the published announcement of the Company as at 11 August 2015, and assuming that the loan capitalisation is approved.

(4) Reference is made to the Company's announcement dated 11 September 2015, the Company completed an acquisition of subsidiary on 11 September 2015 and a total of 196,721,311 Consideration shares were allotted and issued on the same date. The fair value of the Consideration shares issued was determined by the available published price of HK$0.66 each on 11 September 2015.

(5) The estimated net proceeds from the Open Offer are approximately HK$1,090,817,000, assuming the Share Options and Convertible Notes have not been exercised or converted, which is calculated based on the 3,176,281,448 Offer Shares to be issued at the subscription price of HK$0.38 per Offer Share, after net of loan capitalisation of HK$100,000,000 and the estimated expenses of approximately HK$16,170,000.

(6) The pro forma adjustment represents estimated net proceeds received from the allotment and issue of ordinary shares resulting from the exercise of (i) 6,000,000 share options at HK$0.535 each; (ii) 100,000,000 share options at HK$0.314 each; and the conversion of Convertible Notes of HK$160,000,000.

(7) The pro forma adjustment represents estimated net proceeds received from the allotment and issue of 117,000,000 Offer Shares to the holders of Share Options or Convertible Notes upon the full exercise/conversion of the Share Options/Convertible Notes at the subscription price of HK$0.38 per Offer Shares, after net of estimated expenses of approximately HK$667,000.

(8) No adjustment other than those adjusted above has been made to reflect any trading results or other transactions of the Group subsequent to 30 June 2015.

B. ACCOUNTANTS' ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, HLB Hodgson Impey Cheng Limited, Certified Public Accountants, Hong Kong, in relation to the Group's unaudited pro forma financial information.

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

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

25 September 2015

The Board of Directors
Neo Telemedia Limited

Dear Sirs,

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

We have completed our assurance engagement to report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Neo Telemedia Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The Unaudited Pro Forma Financial Information consists of the pro forma net assets statement as at 30 June 2015 and related notes as set out in section A of Appendix II of the Circular 25 September 2015 (the "Circular") issued by the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described in section A of Appendix II of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed open offer (the "Open Offer") of on the basis of one offer share (the "Offer Shares") for every two shares held on the record date on the Group's net tangible assets as at 30 June 2015 as if the Open Offer had taken place at 30 June 2015. As part of this process, information about the Group's net tangible assets has been extracted by the directors from the Group's unaudited interim report for the six months ended 30 June 2015.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" (the "AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the respective dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Circular" issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to the AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant transaction on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2015 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Group.

This circular, 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 the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinion expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Open Offer and the Loan Capitalisation are as follows:

As at the Latest Practicable Date

Authorised:		*HK$*
10,000,000,000	Shares	1,000,000,000.00
Issued and fully-paid:		*HK$*
6,352,562,897	Shares	635,256,289.70

Upon completion of the Open Offer and the Increase in Authorised Share Capital assuming the exercise of the outstanding Share Options and Convertible Notes in full

Authorised:		*HK$*
20,000,000,000	Shares	2,000,000,000.00
Issued and fully paid:		
6,352,562,897	Shares as at the Latest Practicable Date	635,256,289.70
106,000,000	Shares to be issued upon exercise of the outstanding Share Options	10,600,000.00
128,000,000	Shares to be issued upon exercise of the Convertible Notes	12,800,000.00
3,293,281,448	Offer Shares to be issued pursuant to the Open Offer	329,328,144.80
9,879,844,345		987,984,434.50

3,597,642,104 new Shares have been issued by the Company since 31 December 2014 (being the date to which its latest published audit accounts were prepared). Among the 3,597,642,104 Shares, 303,000,000 Shares were issued on 1 April 2015 as consideration shares pursuant to the agreement dated 30 January 2015 entered into by a subsidiary of the Company, details of which are set out in the announcements of the Company dated 30 January and 1 April 2015; 20,000,000 Shares were issued on 8 June 2015 upon exercise of 20,000,000 Share Options granted on 3 April 2013 as detailed in the announcement of the Company dated 3 April 2013; 3,077,920,793 Shares were issued on 19 June 2015 pursuant to the bonus issue of shares as detailed in the announcement of the Company dated 8 May 2015 and the circular of the Company dated 20 May 2015; and 196,721,311 Shares were issued on 11 September 2015 as consideration shares pursuant to an agreement dated 14 August 2015 entered into by a subsidiary of the Company, details of which are set out in the announcements of the Company dated 17 August and 11 September 2015. All the Shares in issue, Shares and Offer Shares to be issued rank and will rank *pari passu* in all respects with each other including as regards to dividends, voting and return of capital.

As at the Latest Practicable Date, the Company has (i) outstanding Convertible Notes in an aggregate principal amount of HK$160,000,000 and convertible into 128,000,000 new Shares at the conversion price of HK$1.25 per conversion share of the Company; and (ii) 106,000,000 outstanding Share Options entitling the holders thereof to subscribe for up to an aggregate of 106,000,000 Shares. Among the 106,000,000 Share Options, 6,000,000 Share Options with exercise price of HK$0.535 and exercise period from 8 April 2011 to 7 April 2021; and 100,000,000 Share Options with exercise price of HK$0.314 and exercise period from 3 April 2013 to 2 April 2018. Save for the aforesaid outstanding Share Options, the Company has no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into Shares.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

As at the Latest Practicable Date, there was no arrangement under which future dividends are waived or agreed to be waived.

As at the Latest Practicable Date, no share or loan capital of the Company or any of its subsidiaries had been put under option or agreed conditionally or unconditionally to be put under option.

3. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors or the chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered into the register referred to therein; or (iii) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code, were as follows:

Name of Director	Number of Shares held	Number of underlying Shares held	Approximate percentage of issued share capital of the Company *(%)*
Huang Zhixiong *(Note a)*	11,356,000	–	0.18
Xu Gang *(Note b)*	996,000	–	0.02
Zhang Xinyu *(Note c)*	–	20,000,000	0.32

Note a: Mr. Huang Zhixiang is an independent non-executive Director. The 11,356,000 Shares are owned by the spouse of Mr. Huang Zhixiang.

Note b: Mr. Xu Gang is an executive Director. The 996,000 Shares include 48,000 Shares owned by the spouse of Mr. Xu Gang.

Note c: Mr. Zhang Xingyu is an executive Director. As at the Latest Practicable Date, Mr. Zhang Xinyu held 20,000,000 outstanding Share Options granted under the Share Option Scheme.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be 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 taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

The Board has not received any information from the Directors of their intention to take up the securities of the Company to be offered to them under the Open Offer.

Substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to section 336 of SFO, and so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or a chief executive of the Company) had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 5% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying voting rights to vote in all circumstances at general meeting of any member of the Group:

Position in the Shares and underlying Shares of the Company

Name of Shareholder	Capacity or Nature of Interests	Number of Shares in Long position	Approximate percentage of issued share capital of the Company *(%)*
Lie Hai Quan *(Note a)*	Beneficial owner and interest of controlled corporations	4,799,721,448	50.37
The Underwriter	Beneficial owner	2,994,561,448	31.42
Ye Weiping *(Note b)*	Beneficial owner and interest of controlled corporations	518,000,000	8.15

Note a: These include the interests of Mr. Lie, the Underwriter and Golden Ocean and taking into account the interests of the Underwriter in 210,000,000 Offer Shares and 2,266,200,793 Offer Shares under the Irrevocable Undertakings and the Underwriting Agreement respectively and the interest of Mr. Lie and Golden Ocean in 589,908,000 Offer Shares and 11,812,000 Offer Shares respectively under the Irrevocable Undertakings. As at the Latest Practicable Date, among these 4,701,360,793 Shares, (i) 420,000,000 Shares are owned by Winner Mind Investments Limited, which is wholly and beneficially owned by Mr. Lie; (ii) 23,624,000 Shares are owned by Golden Ocean, which is wholly and beneficially owned by Mr. Lie; and (iii) 1,179,816,000 Shares are held by Mr. Lie.

Note b: As at the Latest Practicable Date, among these 518,000,000 Shares, (i) 18,000,000 Shares are owned by Bluesea International Group Limited, which is wholly and beneficially owned by Ms. Ye Weiping; and (ii) 200,000,000 Shares are owned by Bluesea Global Group Limited, which is wholly and beneficially owned by Ms. Ye Weiping.

Save as disclosed above and so far as is known to the Directors or chief executive of the Company, there is no person (other than a Director or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital, including options in respect of such capital, carrying rights to vote in all circumstances at general meeting of any other member of the Group.

Additional Disclosures

(i) None of the subsidiaries of the Company, or pension fund of the Company or of a subsidiary of the Company or the advisers to the Company as specified in class (2) of the definition of associate in the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date and had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(ii) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code (which includes any arrangement involving rights over shares, any indemnity arrangement, and any agreement or understanding, formal or informal, of whatever nature, relating to such securities which may be an inducement to deal or refrain from dealing) with the Underwriter, Mr. Lie, Golden Ocean and parties acting in concert with any of them.

(iii) As at the Latest Practicable Date, save for the Irrevocable Undertakings, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code.

(iv) No fund managers (other than exempt fund managers) connected with the Company managed on a discretionary basis any Shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date and had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(v) As at the Latest Practicable Date, none of the Company and the Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives of the Company.

(vi) As at the Latest Practicable Date, no benefit had been or would be given to any Director as compensation for loss of office or otherwise in connection with the Open Offer and/or the Underwriting Agreement and/or the Whitewash Waiver.

(vii) As at the Latest Practicable Date, save for the Underwriting Agreement, there was no agreement or arrangement between any Director and any other person which was conditional on or dependent upon the outcome of the Open Offer, the Underwriting Agreement and/or the Whitewash Waiver or otherwise connected with the Open Offer, the Underwriting Agreement and/or the Whitewash Waiver.

(viii) As at the Latest Practicable Date, no material contracts had been entered into by the Underwriter in which any Director had a material personal interest.

(ix) None of the Underwriter, Mr. Lie, and parties acting in concert with any of them had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(x) The correspondence address of Mr. Lie, being the sole director and beneficial owner of the Underwriter, is Flat 1502, 15/F, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

(xi) The correspondence address of Golden Ocean is Flat 1502, 15/F, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

(xii) The registered address of the Underwriter is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(xiii) As at the Latest Practicable Date, the Underwriter was wholly and beneficially owned by Mr. Lie. Save for Mr. Lie, none of the Company and the Directors were interested in or owned or controlled any shares, convertible securities, warrants, options or derivatives of the Underwriter. None of the Company and the Directors had dealt for value in any shares, convertible securities, warrants, options or derivatives of the Underwriter during the Relevant Period.

4. EXPERTS AND CONSENTS

The following are the qualifications of the experts who have given their advice or opinion which is contained in this circular:

Name	Qualification
Opus Capital	a corporation licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
HLB Hodgson Impey Cheng Limited ("**HLB**")	Certified Public Accountants

Each of Opus Capital and HLB has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter as set out in this circular and reference to its name in the form and context in which they appear respectively.

As at the Latest Practicable Date, neither Opus Capital nor HLB was beneficially interested in the share capital of any member of the Company, nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company, nor did they have any interest, either direct or indirect, in any assets which had been since 31 December 2014 (being the date to which the latest published audited consolidated financial statements of the Company were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to the Company.

5. MATERIAL LITIGATION

The Company

Winding-up petition

Reference is made to the announcement of the Company dated 15 October 2014 regarding the receipt of a winding-up petition (the "Winding-up Petition") by the Company on 15 October 2014, presented by Beyond Net Service Limited (the "Petitioner") at the Court of First Instance of the High Court of the Hong Kong Special Administrative Region (the "High Court") against the Company. The Winding-up Petition concerns a sum of HK$3,067,500 (the "Claim"), being the amount of a cheque issued by the Company on behalf of Cloud Computing Investment Limited ("Cloud Computing"), a wholly owned subsidiary of the Company, to the Petitioner pursuant to a consultancy agreement entered into between the Petitioner and Cloud Computing on 1 August 2012 (the "Consultancy Agreement"). In accordance with the Consultancy Agreement, the Petitioner should provide certain consultation and services to Cloud Computing within one year from the date of the agreement but the Petitioner has failed to do so. Having reviewed the details of the

Winding-up Petition and the relevant facts, the Company has instructed its legal advisers to apply for striking out and dismissal of the Winding-up Petition (the "Application"), which was heard at the High Court on 4 May 2015, and the Company received on 12 May 2015 the decision (the "Decision") from the High Court that the Application has been failed. At the date of this report, the Company has instructed its legal advisers to appeal the Decision. The appeal will be heard on 8 October 2015.

The Company has further instructed its legal advisers to advise and take action on behalf of Cloud Computing against the Petitioner on the Petitioner's failure to perform the Consultancy Agreement. Pursuant to such instructions, the legal adviser has issued a High Court Action on 5 December 2014 against the Petitioner.

Having considered the Claim and the financial position of the Company, the Directors are of the view that the Winding-up Petition would not result in any material adverse impact on the operation and financial position of the Group.

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 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 Vendor. 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 and the Vendor for damages.

CERNET Wifi

Asset Leasehold Arbitration claim

Reference is made to the announcement the Company dated 19 December 2014 in relation to the application by CERNET Wifi to the China International Economic And Trade Arbitration Commission(中國國際經濟貿易仲裁委員會)(the "CIETAC") to claim against CCL and 賽爾投資有限公司 (CERNET Investment Company Limited*) ("CERNET Investment") for, *inter alia*, an amount of RMB22,529,555, being the benefits after deduction of tax generated from the assets leased by CCL and CERNET Investment to CERNET Wifi pursuant to the Asset Leasehold Agreement (the "Asset Leasehold Arbitration").

On 5 February 2015, CERNET Wifi received a counter claim from CCL and CERNET Investment claiming for, *inter alia*, a total amount of RMB26,528,148.

On 13 February 2015, in addition to the claims made in the Asset Leasehold Arbitration, CERNET Wifi has further claimed against CCL and CERNET Investment for, *inter alia*, (i) the continuation of the Asset Leasehold Agreement and (ii) the benefits after deduction of tax generated from the assets leased by CCL and CERNET Investment to CERNET Wifi since 1 October 2014.

On 4 June 2015, CCL and CERNET Investment revised their counter claim amount to RMB17,786,802.

On 15 June 2015, CERNET Wifi further revised its claim amount to RMB23,330,550.

CIETAC has deferred its decision to 12 September 2015 in order to gather more information before arriving at a conclusion. In early September 2015, CIETAC further deferred its decision to 14 December 2015.

CERNET Wifi's PRC legal advisor is of the opinion that the outcome of the Asset Leasehold Arbitration will be based upon calculation and settlement of cost, revenue and benefits under the Asset Leasehold Agreement. As such, as at the date of this report, the outcome is uncertain.

Common Seal and Documents Claim

On 12 January 2015, CERNET Wifi filed a claim against the former general manager of CERNET Wifi (the "Former GM"), in 北京市海淀區人民法院 (Beijing Haidian District People's Court*) (the "Beijing Haidian Court") for, *inter alia*, the return of CERNET Wifi's common seal, contract chop, business registration, and license to carry out value-added telecommunication business ("CERNET Wifi's Documents"). On 17 November 2014, the Former GM was dismissed in response to CERNET Wifi's declining business by way of board resolution passed by the CERNET Wifi's board. On 5 December 2014, CERNET Wifi passed a shareholders' resolution that CERNET Wifi's Documents be under the custody of CERNET Wifi's legal representative, Mr. Zhang Xinyu, a director of the Company. On 26 December 2014, CERNET Wifi requested the Former GM for the return of CERNET Wifi's Documents but the Former GM had failed to do so. Beijing Haidian Court issued the judgement on 18 March 2015, pursuant to which the Former GM shall return CERNET Wifi's common seal, contract chop and business registration and its duplicate.

The Former GM has brought the claim to 北京市第一中級人民法院 (Beijing No.1 Intermediate People's Court*) as an appeal to the Beijing Haidian Court's decision. On 21 May 2015, Beijing No.1 Intermediate People's Court issued the final judgement and upheld the original judgement. As at the Latest Practicable Date, the CERNET Wifi's common seal, contract chop and business registration and its duplicate were received by CERNET Wifi.

Labour Arbitration Claim

On 12 January 2015, notices of claim of 69 former employees of CERNET Wifi were served on CERNET Wifi by 北京市海淀區勞動人事爭議仲裁委員會(Haidian District Labour Dispute Arbitration Committee of Beijing Municipality*) (the "HDLDAC") pursuant to which, the applicants claimed for the amount of RMB1,361,993.57, being the salary, over-time payment, meals fee, disbursement, annual leave fee, and dismissal fees payable by CERNET Wifi. CERNET Wifi has counter-claimed against 34 applicants for the return of company properties and payment of commissions (the "Labour Arbitration Claim").

The HDLDAC rendered its decision with respect to the Labour Arbitration Claim and CERNET Wifi has brought the claim to the Beijing Haidian Court as an appeal to the HDLDAC's decision.

On 19 May 2015, Beijing Haidian Court upheld the decision rendered by HDLDAC. CERNET Wifi has brought the claim to Beijing No.1 Intermediate People's Court as an appeal to the Beijing Haidian Court's decision.

Save as disclosed above in this circular, as at the Latest Practicable Date, so far as known to the Directors, there is no litigation, arbitration or claim of material importance in which the Company is engaged or pending or threatened against the Company.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had service contract with the Company or any of its subsidiaries or associated companies (i) which (including both continuous and fixed term contract) had been entered into or amended within six months before the date of the Announcement; (ii) which were continuous contracts with a notice period of 12 months or more; (iii) which were fixed term contracts with more than 12 months to run irrespective of the notice period; or (iv) which were not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

7. MATERIAL CONTRACTS

During the two years immediately preceding the date of the Announcement and up to the Latest Practicable Date, the following contracts, not being contracts entered into in the ordinary course of business, have been entered by the Company and are or may be material:–

(a) a 4th amendment agreement dated 31 October 2013 between the Company and Space-Communication Ltd ("**Spacecom**"), a company organized and operating under the laws of the State of Israel, an Independent Third Party, pursuant to which the Company and Spacecom agreed to, among other things, (i) amend and supplement the terms of the sale and operation agreement; and (i) extend the long stop date to 31 March 2014 and revise the aggregate consideration for the entire segment of Ka-band on the satellite AMOS-4 ("**Ka-Beam of the Satellite**") to US$65,000,000;

(b) a lease agreement dated 31 October 2013 between the Company and Spacecom pursuant to which Spacecom agreed to lease to the Company the Ka-Beam of the Satellite for the term of one year for a leasing fee of US$3,000,000;

(c) a subscription agreement dated 15 March 2014 between (i) the Company; and (ii) Radiant Castle Investment Fund Limited, a company incorporated in the Cayman Islands and a mutual fund (collectively, the "**Subscribers**") pursuant to which the Subscriber conditionally agreed to subscribe for and the Company conditionally agreed to issue an aggregate of 500,000,000 subscription shares at a price of HK$0.20 per subscription share;

(d) a termination agreement dated 21 March 2014 between the Company and the Subscribers, pursuant to which the subscription agreement dated 15 March 2014 between the Company and the Subscribers has been terminated;

(e) a placing agreement dated 15 May 2014 between the Company and Kingston Securities Limited (the "**Placing Agent**") pursuant to which the Company has conditionally agreed to place, through the Placing Agent on a best effort basis, a maximum of 200,000,000 placing shares at the placing price of HK$0.201 to not less than six placees who and whose ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons (as defined in the GEM Listing Rules);

(f) property acquisition agreements dated 28 August 2014 between 中新賽爾(深圳)網絡通信技術有限公司, a company incorporated in the PRC with limited liability, being a wholly-owned subsidiary of the Company, (the "**Purchaser**") and 佛山源海發展有限公司, a company incorporated in the PRC with limited liability (the "**Property Vendor**") pursuant to which the Purchaser has agreed to purchase and the Property Vendor has agreed to sell four office units, namely room 1601, room 1602, room 1603 and room 1604 of Block 4, Tower 1 located at Smart City, No. 1 Zhi Hui Road, Chan Cheng District, Foshan, the PRC at the consideration of RMB17,316,880 (equivalent to approximately HK$21,819,000);

(g) an agreement dated 30 January 2015 between Neo Mobile Holdings Limited (the "**Subsidiary**"), a company incorporated in the British Virgin Islands with a limited liability and a wholly-owned subsidiary of the Company, and Ms. Ye Weiping (葉偉平)("**Ms. Ye**") pursuant to which Ms. Ye has conditionally agreed to execute and procure the execution of structured contracts and the Subsidiary conditionally agreed to procure the issuance and allotment of consideration shares by the Company to Ms. Ye at the subscription price of HK$0.33 per share with the total subscription price being HK$99,990,000;

(h) a joint venture agreement ("**JV Agreement**") dated 24 April 2015 between 廣東蔚海科技發展有限公司 (Guangdong Weihai Technology Development Company Limited*), a company established in the PRC with limited liability and wholly owned by the Company ("**Guangdong Bluesea**") and 山東浪潮雲海雲計算產業投資有限公司 (Shandong Inspur Cloud Computing Industry Investment Company Limited*), a company established in the PRC with limited liability ("**Inspur Cloud Computing**") pursuant to which Guangdong Bluesea and Inspur Cloud Computing have agreed to establish a joint venture company, namely, 廣東浪潮蔚海雲計算有限公司 (Guangdong Inspur Weihai Cloud Computing Company Limited*) in Chancheng district (禪城區), Foshan city (佛山市), Guangdong Province of the PRC to mainly engage in the application of cloud computing and e-commerce businesses. Pursuant to the JV Agreement, the amount of registered capital of the joint venture company shall be RMB20,000,000 while Inspur Cloud Computing shall account for a capital contribution of RMB12,000,000 and the Subsidiary shall account for a capital contribution of RMB8,000,000.

(i) warrant subscription agreements dated 5 May 2015 between the Company and the subscribers, being Independent Third Party(ies) who entered into the warrant subscription agreements pursuant to which the Company agreed to issue and the subscribers agreed to subscribe for an aggregate of 400,000,000 warrants at the issue price of HK$0.05 per warrant (the "**Warrant Subscription Agreements**"). Each of the warrants carries the right to subscribe for one warrant share at the initial exercise price of HK$0.50 per warrant share during a period of two years commencing from (and inclusive of) the date of issue of the warrants;

(j) a loan agreement dated 26 May 2015 dated 11 May 2015 between the Company and Mr. Lie pursuant to which Mr. Lie, has agreed to lend to the Company a loan of HK$100,000,000 for a period of one year commencing from the drawdown date of the loan at an interest rate of 5% per annum;

(k) an acquisition agreement dated 15 June 2015 between 廣東蔚海移動發展有限公司 (Guangdong Bluesea Mobile Development Company Limited*), a wholly-owned subsidiary of the Company ("**Blue Mobile**") and 山東三星集團有限公司 (Shandong Sanxing Group Co., Ltd.*) ("**Sanxing Group**"), an Independent Third Party pursuant to which Sanxing Group agreed to sell and Bluesea Mobile agreed to purchase the sale interest, representing 43% of the entire equity interest of the 中集物流裝備有限公司 (CNCC Logistics Equipment Co., Ltd*), a company established under the laws of the PRC at a consideration of RMB2,764,717 (or equivalent to approximately HK$3,455,896) and the Purchaser shall be required to contribute an additional amount of RMB18,500,000 (equivalent to approximately HK$23,125,000) as capital contribution to the 中集物流裝備有限公司;

(l) a memorandum of understanding dated 19 June 2015 between the (i) Neo Intelligence Holdings Limited ("**NHL**"), a company incorporated in the British Virgin Islands and an indirect wholly owned subsidiary of the Company; (ii) Mr. Chan Hung Kwong, Mr. Chan Yu Chiu, and Mr. Chan Yue Kuen; and (iii) Giant Crown Industries Limited, a company incorporated in Hong Kong with limited liability in relation to the possible acquisition of (i) 80% equity interest in ACE International Electronics Limited, a company incorporated in Hong Kong with limited liability; and (ii) 80% equity interest in Giant Crown Industries Limited. A deposit of HK$20 million has been paid by NHL within 5 business days upon the signing of the memorandum of understanding;

(m) a joint venture agreement dated 31 July 2015 pursuant to which (i) 中新聯融(深圳)信息服務有限公司 (Zhongxin Lianrong (Shenzhen) Information Services Company Limited*) ("**Zhongxin Lianrong**"), a company established in the PRC and is an indirect wholly-owned subsidiary of the Company; (ii) 寧波億人金融服務外包有限公司 (Ningbo Yiren Financial Outsourcing Services Company Limited*) ("**Ningbo Yiren**"), a company established in the PRC; (iii) 廣東炫蜂家族投資合夥企業 (Guangdong Xuanfeng Family Investment LLP*) ("**Guangdong Xuanfeng**"), a limited partnership established in the PRC; and (iv) Mr. Fu Zhe agreed to establish 深圳市蜜蜂金服互聯網金融服務有限公司 (Shenzhen Mifeng Jinfu Internet Financial Services Company Limited*) ("**JV Company**"), a company contemplated to be established in the PRC and is owned as to 45%, 15%, 25% and 15% by Zhongxin Lianrong, Ningbo Yiren, Guangdong Xuanfeng and Mr. Fu Zhe. The total investment into the JV Company is RMB30,000,000 and is contributed in accordance to each said party's ownership of the JV Company;

(n) a conditional sale and purchase agreement dated 14 August 2015 pursuant to which, NEO Cloud Computing Holdings Limited, a company incorporated in British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, as the purchaser, conditionally agreed to acquire and Mr. Lin Mingxin (林明新), as the vendor, conditionally agreed to sell the entire share capital of Million Ace Limited, an international business company incorporated in the Republic of Seychelles at the consideration of HK$240,000,000; and

(o) the Underwriting Agreement.

8. EXPENSES

The estimated expenses in connection with the Open Offer (including but not limited to the underwriting commission, printing, registration, financial advisory, legal, professional and accounting charges) are approximately HK$16.17 million and are payable by the Company.

9. MARKET PRICES

The table below shows the closing prices of the Shares as recorded on the Stock Exchange on (i) the Last Trading Day; (ii) the last trading day of each of the calendar months during the period 6 months prior to the date of the Announcement, being 11 August 2015, and ending on the Latest Practicable Date; and (iii) the Latest Practicable Date:

Date	**Closing price per Share** *(HK$)*
27 February 2015 *(Note)*	N/A
31 March 2015 *(Note)*	N/A
30 April 2015 *(Note)*	N/A
29 May 2015 *(Note)*	N/A
19 June 2015 (Last Trading Day)	1.69
30 June 2015 *(Note)*	N/A
31 July 2015 *(Note)*	N/A
31 August 2015	0.69
22 September 2015 (Latest Practicable Date)	0.70

Note: Suspension of trading of Shares

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$1.96 as quoted on 15 June 2015 and HK$0.39 as quoted on 6 May 2015 respectively.

10. PARTIES

(i) Particulars of Directors

Name	Address
Executive Directors:	
Mr. CHEUNG Sing Tai	Unit 1504, Harcourt House 39 Gloucester Road Wanchai Hong Kong
Mr. ZHANG Xinyu	Unit 1504, Harcourt House 39 Gloucester Road Wanchai Hong Kong
Mr. LIAN Xin	Unit 1504, Harcourt House 39 Gloucester Road Wanchai Hong Kong
Mr. XU Gang	Unit 1504, Harcourt House 39 Gloucester Road Wanchai Hong Kong
Independent non-executive Directors:	
Mr. LEUNG Ka Wo	Unit 1504, Harcourt House 39 Gloucester Road Wanchai Hong Kong

Name	Address
Mr. CHOU Jianzhong	Unit 1504, Harcourt House 39 Gloucester Road Wanchai Hong Kong
Ms. XI Lina	Unit 1504, Harcourt House 39 Gloucester Road Wanchai Hong Kong
Mr. HUANG Zhixiong	Unit 1504, Harcourt House 39 Gloucester Road Wanchai Hong Kong

(ii) Biographical Details of Directors

Executive Directors

Mr. CHEUNG Sing Tai

Mr. CHEUNG Sing Tai aged 53, was appointed as an executive Director on 21 June 2013 and chairman of the Board and chief executive officer on 20 March 2014. Mr. Cheung graduated from the Department of Thermal Engineering of Tsinghua University and the Sun Yat-sen Business School with a bachelor degree in engineering and a master degree in business administration respectively. Mr. Cheung was engaged in trade between the PRC and Hong Kong in his early years. He had served as deputy manager in Strategic Development Department of Guangdong Investment Limited, a company listed on the Stock Exchange, while he was also a director of Guangdong Tannery Limited, a company listed on the Stock Exchange. Mr. Cheung previously served as the managing director of CL China Group Limited and the general manager of Coastland Development (Int'l) Co., Limited; both are engaged in investment in securities and real estate.

Mr. ZHANG Xinyu

Mr. ZHANG Xinyu, aged 53, was appointed as an executive Director on 15 June 2012. Mr. Zhang Xinyu holds a master of business administration degree and is familiar with the securities market regulations in Hong Kong. He was a licensed responsible officer under the Securities and Futures Ordinance and an advisor of the Management Consulting Committee of China Enterprise Confederation. He has over 20 years working experience in banking and investment banking industries and accumulated extensive network resources and experience in capital management. He has been engaged in research and practice in listing, merger and acquisition, reorganisation, spin-off and asset securitisation. In 1990, he was appointed by the head office of Bank of China to hold senior position in Bank of China (Hong Kong) Limited in Hong Kong and mainly to provide financial support to relevant Chinese entities under the State Council based in Hong Kong.

Mr. LIAN Xin

Mr. LIAN Xin, aged 60, was appointed as an executive Director on 21 June 2013. Mr. Lian has over 30 years' experience in accounting, auditing, legal practice and management in PRC. He has held senior positions in the PRC government, law firms and listed companies. Mr. Lian is currently a director and vice president of CERNET Wifi Technology (Beijing) Company Limited(賽爾無線網絡科技(北京)有限公司), a subsidiary of the Company. In the 1990s, Mr. Lian participated in acquisitions of several Mainland companies. In 2000, he took part in seminars held by organisations including the Department of Legal Affairs of the China Securities Regulatory Commission (the "CSRC") and the Shenzhen Stock Exchange on the establishment of the Growth Enterprise Market. In 2003, he was recorded in the talent pool of independent directors which was created by the CSRC. He was also rated as management professional by the Shenzhen Expertise Federation(深圳市專家聯合會) in 2004.

Mr. Lian holds qualifications of China Commerce Operating Manager(高級經營師), management professional, professional accountant and lawyer in PRC.

Mr. XU Gang

Mr. Xu, aged 44, has been appointed as an executive Director on 17 June 2015. Mr. Xu graduated from School of Economics and Management, Tsinghua University with an executive master degree of business administration in 2006. He obtained his double bachelor's degree from Beijing University of Technology in 1995 and 1993. Mr. Xu is the general manager of Guangdong Bluesea. He has extensive experience in the strategy planning, operation, marketing and capital management of international high-tech enterprises and the strategy management, risk management and concentrative management of large financial institutions. Prior to joining Guangdong Bluesea, Mr. Xu served as the general manager of business intelligence division of 甲骨文(中國)軟件系統有限公司 (Oracle (China) Software System Company Limited*).

Independent non-executive Directors

Mr. LEUNG Ka Wo

Mr. Leung, AICPA, aged 41, was appointed as an independent non-executive Director as 20 March 2014. He holds a bachelor of arts degree in accountancy from Seattle University, Seattle, Washington, USA. He is a member of the American Institute of Certified Public Accountants. He has over 14 years of experience in auditing and accounting, and had worked as the finance director and company secretary of ERA Mining Machinery Limited (a company delisted from GEM since 4 October 2012 as a result of privatisation) and a manager for Deloitte Touche Tohmatsu. He is currently a director and chief financial officer of Hong Kong Jia Hong Investment Company Limited.

Mr. CHOU Jianzhong

Mr. Chou, aged 48, was appointed as an independent non-executive Director on 20 March 2014. He holds a doctoral degree. He served as the vice president and senior economist of Guangdong Securities Co., Ltd.*（廣東證券股份有限公司）, a postdoctoral researcher of Xiamen University, an independent director of FSPG Hi-tech Co., Ltd.（佛山塑料集團股份有限公司）(a company listed on Shenzhen Stock Exchange) and an independent director of Guangdong Jiuzhou Sun Media Co., Ltd.*（廣東九州陽光傳媒股份有限公司）(now known as 'Guangdong Guangzhou Daily Media Co., Ltd.*（廣東廣州日報傳媒股份有限公司）'). He is currently a fellow member of the Hong Kong Quality Management Association, a special consultant of Guangdong Provincial Economic Restructuring Research*（廣東省體改研究會）, a master of business administration and a part-time instructor of Jinan University, a part-time professor of South China Normal University, a professor and doctoral tutor of City University of Macau, an executive of Guangdong Finance Society*（廣東金融學會）, a director of Guangzhou Jinan Investment Co., Ltd.*（廣州暨南投資有限公司）, a director of Guangdong Junfeng Spectrum Co., Ltd.,（廣東駿豐頻譜股份有限公司）, an independent director of the sixth board of Guangdong Golden Dragon Development Inc.（廣東錦龍發展股份有限公司）(a company listed on Shenzhen Stock Exchange), an independent director of the third board of Guangdong Alpha Animation and Culture Co., Ltd.（廣東奧飛動漫文化股份有限公司）(a company listed on Shenzhen Stock Exchange) and an independent director of the third board of Shenzhen Infinova Technology Co., Ltd.*（深圳英飛拓科技股份有限公司）.

Ms. XI Lina

Ms. Xi, aged 32, was appointed as an independent non-executive Director on 16 May 2014. She graduated with a degree in economics and international trade from Zhejiang University of Finance and Economics and holds a master of science in banking and international finance from the City University, London. She has extensive experience in economics and futures market.

Mr. HUANG Zhixiong

Mr. Huang, aged 53, has been appointed as an independent non-executive Director on 13 May 2015. Mr. Huang holds a master degree in business management. He is the senior advisor of Institute of Guangdong South China Science and Technology Capital*(廣東華南科技資本研究院). Mr. Huang obtained the Independent Director Qualification awarded by the Shenzhen Stock Exchange in January 2015. Mr. Huang was certified with (i) the Securities Certificate Level II in 2005, (ii) the Securities Institutions Senior Management Personnel Qualification in 2003, (iii) the Securities Investment Fund Qualification and Securities and Futures Qualification in 2002, (iv) the Securities Investment Analysis Qualification in 2001, (v) the Securities Trading Brokerage Qualification and Securities Issuance and Underwriting Qualification in 2000; and (vi) the Shenzhen Stock Exchange Initial National Debt and Futures Qualification in 1994. He obtained the Intermediate Economist title awarded by National Ministry of Personnel in 1994. Mr. Huang is currently the vice chairman of Guangdong Macro Co., Ltd.(廣東萬家樂股份有限公司) which is listed on the Shenzhen Stock Exchange (stock code: 000533).

11. PARTIES INVOLVED IN THE OPEN OFFER AND CORPORATE INFORMATION

Registered office of the Company	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business of the Company in Hong Kong	Unit 1504, Harcourt House 39 Gloucester Road Wanchai Hong Kong

Authorised representatives of the Company	Mr. CHEUNG Sing Tai Unit 1504, Harcourt House 39 Gloucester Road Wanchai Hong Kong Mr. TSE Kam Fai Room 1502, 15th Floor The Chinese Bank Building 61-65 Des Voeux Road Central Hong Kong
Company secretary of the Company	Mr. TSE Kam Fai *fellow member of Hong Kong Institute of Company secretaries* Room 1502, 15th Floor The Chinese Bank Building 61-65 Des Voeux Road Central Hong Kong
Audit Committee of the Company	Mr. LEUNG Ka Wo *(Chairman)* Mr. CHOU Jianzhong Ms. XI Lina
Auditors and reporting accountant of the Company	HLB Hodgson Impey Cheng Limited *Certified Public Accountants* 31/F, Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong
Underwriter	Winner Mind Investments Limited P.O. Box 957 Offshore Incorporations Centre Road Town, Tortola British Virgin Islands

Independent financial adviser to the Independent Board Committee and the Independent Shareholders	Opus Capital Limited 18/F, Fung House 19-20 Connaught Road Central Central, Hong Kong
Legal Advisers of the Company	*On Hong Kong Law:* TC & Co. Unit 2201-3, 22nd Floor Tai Tung Building 8 Fleming Road Wanchai Hong Kong *On Cayman Islands law:* Conyers Dill & Pearman 2901 One Exchange Square 8 Connaught Place, Central Hong Kong
Principal Bankers of the Company	Industrial and Commercial Bank of China (Asia) Limited 1/F., 9 Queen's Road Central, Hong Kong Bank of China (Hong Kong) Limited 1 Garden Road, Hong Kong Bank of Communications China Shine Plaza, Linhe Xi Road, Tianhe District, Guangzhou, Guangdong Province, the PRC China Construction Bank No. 43, Huangbu Road, Tianhe District, Guangzhou, Guangdong Province, the PRC
Principal Registrar and transfer office of the Company in the Cayman Islands	Codan Trust Company (Cayman) Limited Cricket Square P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands

Branch Registrar of the Company in Hong Kong	Tricor Tengis Limited Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

12. MISCELLANEOUS

(a) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired, disposed of or leased to or which are proposed to be acquired, disposed of or leased to the Company since 31 December 2014, being the date to which the latest published audited accounts of the Company were made up.

(b) As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Company.

(c) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Underwriter and any other persons whereby the Offer Shares subscribed and acquired under the Open Offer would be transferred, charged or pledged to any persons.

(d) As at the Latest Practicable Date, there was no restriction affecting the remittance of profits or repatriation of capital of the Company into Hong Kong from outside of Hong Kong. Save and except for Renminbi, the Group has no exposure to foreign exchange liabilities. The Group will have sufficient foreign exchange, generated from the operation of its subsidiaries to pay forecasted or planned dividends and to meet its foreign exchange liabilities as they become due.

(e) As at the Latest Practicable Date, Mr. Xu Gang, Mr. Huang Zhixiong and Ms. Ye Weiping who were Director, independent non-executive Director and ex-Director respectively confirmed that they were not involved or interested in the Open Offer, the Underwriting Agreement or the Whitewash Waiver and they have expressed their intentions, in respect of their own beneficial shareholdings in the Company, to vote for the resolutions (to the extent they are not required to abstain from voting under the GEM Listing Rules) to be proposed in relation to the Open Offer (including the absence of excess application arrangement under the Open Offer), the Underwriting Agreement and the Whitewash Waiver at the EGM.

(f) The English text of this circular shall prevail over the Chinese text in the case of inconsistency.

13. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors were appointed as directors to represent the interests of the Company and/or the Group.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours (Saturdays and public holidays excepted) at Unit 1504, Harcourt House, 39 Gloucester Road Wanchai, Hong Kong; (ii) on the website of the Company (www.neo-telemedia.com); and (iii) on the website of the Securities and Future Commission (www.sfc.hk) from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the memorandum and articles of the Underwriter:

(c) the letter from the Board, the text of which is set out on pages 10 to 37 of this circular;

(d) the letter from the Independent Board Committee, the text of which is set out on pages 38 to 39 of this circular;

(e) the letter of advice from Opus Capital the text of which is set out on pages 40 to 80 of this circular;

(f) the letter from HLB in respect of the unaudited pro forma financial information following the completion of Open Offer, the text of which is set out on pages App II-4 to App II-6 of this circular;

(g) the annual reports of the Company for the period/year ended 31 December 2013 and 31 December 2014;

(h) the interim reports of the Company for the six months ended 30 June 2015;

(i) the material contracts as referred to in the section headed "material contracts" in this appendix;

(j) the written consents referred to in the paragraph headed "Experts and Consents" in this appendix; and

(k) this circular.

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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Neo Telemedia Limited (the "**Company**") will be held at Empire Room 1, 1/F., Empire Hotel Hong Kong Wan Chai, 33 Hennessy Road, Wanchai, Hong Kong at 11:00 a.m. on Thursday, 15 October 2015 for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions as ordinary resolutions respectively:

ORDINARY RESOLUTIONS

1. "**THAT** subject to the fulfilment of the conditions of the Underwriting Agreement (as defined below) the Open Offer (as defined below) and the transaction contemplated:

   (a) the issue by way of open offer (the "**Open Offer**") of not less than 3,176,281,448 new shares of HK$0.1 each of the Company (the "**Shares**") and not more than 3,293,281,448 Shares of HK$0.10 each in the share capital of the Company (the "**Offer Shares**") to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company on a date (the "**Record Date**") to be fixed by the directors of the Company (the "**Directors**") in the proportion of one Offer Share for every two Shares then held at the subscription price of HK$0.38 per Offer Share excluding those Shareholders whose registered address as shown on such register are outside Hong Kong on the Record Date whom the Directors consider necessary or expedient to exclude after making the relevant enquiries regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange in the place where those Shareholders reside (the "**Excluded Shareholders**"), and on the terms and conditions as set out in the circular of the Company dated 25 September 2015 (the "**Circular**"), including the absence of excess application arrangement under the Open Offer, and on such other terms and conditions as may be determined by the Directors be and are hereby approved;

(b) the underwriting agreement dated 11 August 2015 (and supplemental agreements dated 11 and 22 September 2015 thereto) (the "**Underwriting Agreement**") entered into between the Company, Winner Mind Investments Limited (the "**Underwriter**") and Mr. Lie Hai Quan ("**Mr. Lie**"), a copy of which has been produced at the EGM and marked "A" and initialed by the chairman of the EGM for identification purpose be and is hereby approved, confirmed and ratified in all respects;

(c) the Directors be and are hereby authorised to allot and issue the Offer Shares pursuant to or in connection with the Open Offer, and in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in relation to fractional entitlements, odd lots or the entitlements of the Excluded Shareholders as they deem necessary or expedient having regard to any restriction or obligation under the laws of, or the requirements of any regulatory body or stock exchange in any territory outside Hong Kong;

(d) the payment of the underwriting commission to the Underwriter pursuant to the Underwriting Agreement (the "**Underwriting Commission Arrangement**") be and is hereby approved, confirmed and ratified;

(e) the aggregate subscription price for the Offer Shares at the subscription price of HK$0.38 per Offer Share to be issued under the Open Offer payable by Mr. Lie and his associates under the Irrevocable Undertakings (as defined in the Circular) and the Underwriter under the Underwriting Agreement be partially satisfied by way of capitalisation of the loan due from the Company to Mr. Lie of up to HK$100,000,000 (the "**Loan Capitalisation**") be and is hereby approved, confirmed and ratified; and

(f) the Directors be and are hereby authorised to sign and execute such documents and do all such acts and things incidental to the Open Offer, the Underwriting Commission Arrangement and the Loan Capitalisation or as they consider necessary, desirable, or expedient in connection with the implementation of or giving effect to the Open Offer, the Underwriting Commission Arrangement and the Loan Capitalisation, the Underwriting Agreement and the transactions contemplated thereunder."

2. "**THAT** the waiver (the "**Whitewash Waiver**") granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission to the Underwriter and parties acting in concert with it pursuant to Note 1 on the Dispensations from Rule 26 of the Code on Takeovers and Mergers of Hong Kong from an obligation to make a general mandatory offer for the shares of the Company not already owned by them as a result of the Open Offer be and are hereby approved and the Directors be and are hereby authorised to do all such things and acts and execute all documents which they consider necessary, desirable or expedient to implement or to give effect to any matters relating to the Whitewash Waiver."

3. "**THAT**

   (a) the authorised share capital of the Company be increased from HK$1,000,000,000 divided into 10,000,000,000 Shares to HK$2,000,000,000 divided into 20,000,000,000 Shares by the creation of an additional 10,000,000,000 new Shares ranking pari-passu with the existing shares of the Company (the "**Increase in Authorised Share Capital**"); and

   (b) any one or more of the Directors be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Increase in Authorised Share Capital."

4. "**THAT** conditional on the passing of the ordinary resolution numbered 1 and the completion of the Open Offer, the allotment and issue of new Shares upon the exercise of the conversion rights attaching to the Convertible Notes (as defined in the Circular) be and is hereby approved; and the Directors be and are hereby authorised to do all such acts and things as they consider necessary, desirable or expedient for the implementation of and giving effect to the allotment and issue of the Shares upon exercise of the conversion rights attaching to the Convertible Notes."

By order of the Board
Neo Telemedia Limited
CHEUNG Sing Tai
Chairman

Hong Kong, 25 September 2015

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Unit 1504, Harcourt House
39 Gloucester Road
Wanchai
Hong Kong

Notes:

1. Any member entitled to attend and vote at the extraordinary general meeting (or its adjourned meeting) is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

2. Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting or poll concerned if he so wishes. In the event of a member who has lodged a form of proxy attending the meeting, his form of proxy will be deemed to have been revoked.

3. In order to be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration as soon as possible and in any event not less than 48 hours before the time appointed for holding the extraordinary general meeting or any adjournment thereof or, in the case of a poll taken subsequently to the date of the meeting or adjourned meeting, not later than 24 hours before the time appointed to the taking of the poll.

4. In the case of joint holders of a share, any one of such holders may vote at the meeting, either personally, by proxy, in respect of such shares as if he were solely entitled thereto but if more than one of such joint holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

5. As at the date of this notice, the Board comprises four executive Directors, namely Mr. Cheung Sing Tai (Chairman and Chief Executive Officer), Mr. Zhang Xinyu, Mr. Lian Xin and Mr. Xu Gang, and four independent non-executive Directors, namely Mr. Leung Ka Wo, Mr. Chou Jianzhong, Ms. Xi Lina and Mr. Huang Zhixiong.