



# Neo Telemedia Limited

## 中國新電信集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code : 8167

Interim Report  
**2015**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

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*This report, for which the directors (the “Directors”) of Neo Telemedia Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Neo Telemedia Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:*

- 1. the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and*
- 2. there are no other matters the omission of which would make any statement herein or this report misleading.*

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six and three months ended 30 June 2015

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

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	<i>Notes</i>	<b>30 June 2015 HK\$'000 (Unaudited)</b>	31 December 2014 HK\$'000 (Audited)
<b>Non-current assets</b>			
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
<b>Total non-current assets</b>		<b>238,958</b>	99,259
<b>Current assets</b>			
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
<b>Total current assets</b>		<b>139,623</b>	48,516
<b>Current liabilities</b>			
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	–
<b>Total current liabilities</b>		<b>334,090</b>	95,272
<b>Net current liabilities</b>		<b>(194,467)</b>	(46,756)
<b>Total assets less current liabilities</b>		<b>44,491</b>	52,503

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

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Attributable to owners of the Company								Sub-total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Share options reserve HK\$'000	Warrant reserve HK\$'000	Convertible notes reserve HK\$'000	Translation reserve HK\$'000	Statutory reserve HK\$'000	Accumulated losses HK\$'000			
<b>At 1 January 2014 (audited)</b>	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)
<b>Other comprehensive loss:</b>											
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
<b>At 30 June 2014 (unaudited)</b>	275,492	1,043,754	20,657	14,600	7,131	(65)	7,375	(974,955)	393,989	98,800	492,789
<b>At 1 January 2015 (audited)</b>	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)	(11,399)	(31,924)
<b>Other comprehensive income:</b>											
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)	-	-	-	-	-	-	-	-	-
<b>At 30 June 2015 (unaudited)</b>	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 HK\$'000 (Unaudited)	2014 HK\$'000 (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
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>28,903</b>	61,717
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	31,668	10,966
Effect on foreign exchange rate changes	311	(83)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>60,882</b>	72,600
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:</b>		
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.

## 2. Basis of preparation and accounting policies (Continued)

### *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".

\* For identification purposes only

2. Basis of preparation and accounting policies (Continued)

*De-consolidation (Continued)*

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 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (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

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

**3. TURNOVER AND SEGMENT INFORMATION (Continued)**

**(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		Transmedia advertising services		P2P lending platform		Total	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (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 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)
Segment assets	261,222	121,245	6,361	15,059	67,709	-	335,292	136,304
Unallocated corporate assets							43,289	11,471
<b>Total assets</b>							<b>378,581</b>	<b>147,775</b>
Segment liabilities	50,618	51,154	1,795	1,685	31,718	-	84,131	52,839
Unallocated corporate liabilities							279,101	198,005
<b>Total liabilities</b>							<b>363,232</b>	<b>250,844</b>

## 4. FINANCE COSTS

	For the six months ended 30 June		For the three months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (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 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (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 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (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
<b>Cost</b>	
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
<b>Accumulated impairment</b>	
At 1 January 2015 (Audited) and	
30 June 2015 (Unaudited)	1,104,316
<b>Carrying values</b>	
<b>At 30 June 2015 (Unaudited)</b>	<b>58,720</b>
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**

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

	<b>30 June 2015 HK\$'000 (Unaudited)</b>	31 December 2014 HK\$'000 (Audited)
Within 30 days	662	333
31 to 60 days	475	539
61 to 90 days	-	-
Over 90 days	-	19
	<b>1,137</b>	891

**13. TRADE PAYABLES**

	<b>30 June 2015 HK\$'000 (Unaudited)</b>	31 December 2014 HK\$'000 (Audited)
Trade payables	7,404	10,326

**13. TRADE PAYABLES (Continued)**

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

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

**14. OTHER PAYABLES AND ACCRUALS**

	<b>30 June 2015 HK\$'000 (Unaudited)</b>	31 December 2014 HK\$'000 (Audited)
Other payables	71,806	59,736
Accruals	31,382	25,134
	<b>103,188</b>	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:

	<b>Intangible assets HK\$'000</b>
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)
<b>At 30 June 2015 (Unaudited)</b>	<b>29,142</b>

**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
<b>At 30 June 2015 (Unaudited)</b>	<b>0.1</b>	<b>6,155,841,586</b>	<b>615,584</b>

**18. SHARE CAPITAL (Continued)**

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 Ltd Co.\*) (“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

## 19. ACQUISITION OF SUBSIDIARIES (Continued)

## (a) Acquisition of Bluesea Mobile Group (Continued)

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

	Pre-acquisition carrying amount HK\$'000	Fair value adjustments HK\$'000	Fair value 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.

19. ACQUISITION OF SUBSIDIARIES (Continued)

(a) *Acquisition of Bluesea Mobile Group (Continued)*

*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

19. ACQUISITION OF SUBSIDIARIES (Continued)

(b) *Acquisition of CNCC Logistics (Continued)*

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.

19. ACQUISITION OF SUBSIDIARIES (Continued)

(b) Acquisition of CNCC Logistics (Continued)

*Net Cash outflow arising on acquisition (Continued)*

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		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 June 2015 (HK\$'000)	31 December 2014 (HK\$'000)		
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

## MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2015, the Group recorded a turnover of approximately HK\$17,331,000 (2014: HK\$19,667,000), representing a decline of HK\$2,336,000 or 12% as compared to the same period last year. The Group recorded a loss attributable to owners of the Company of approximately HK\$20,535,000 (2014: HK\$40,837,000) for the six months ended 30 June 2015, representing a significant decrease of HK\$20,302,000 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\*) (“CERNET Wifi”), and ii) decline in performance of satellite-related services; offsetting the revenue contribution of approximately HK\$10,770,000 from 廣東蔚海移動發展有限公司(Guangdong Bluesea Mobile Development Ltd Co.\*) (“Bluesea Mobile”) and 廣東阿凡達財富投資管理有限公司(Guangdong Avatar Wealth Investment Management Co., Ltd\*) (“Avatar Wealth”), 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 of approximately HK\$4,064,000 generated by Bluesea Mobile and Avatar Wealth, 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.

### Sale of telecommunication products and services

#### *Hughes China Group*

During the period under review, Hughes China Group continued to work on the coal-mine surveillance projects, as well as the two other major projects namely “天地星” and “蒙古包”. The revenue contributed to the Group for the period represents sale of satellite communication system devices and related services.

\* For identification purposes only

### ***CERNET Wifi Group***

Due to (i) the non-cooperation of the former general manager of CERNET Wifi, and (ii) the non-cooperation of the holders of the non-controlling interests, 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, CERNET Wifi has been de-consolidated from the consolidated financial statements since last financial year. Therefore, there is no revenue contributed from the CERNET Wifi group in the period under review.

### ***Smart Long Group***

During the period under review, Smart Long Group has launched its online platform for promotion of Internet lottery sales; however, the operation is subsequently suspended due to the promulgation of the Notice of General Administration of Sport on the Practical Implementation of Special Audit Opinions on Lottery Funds to Strengthen the Sports Lottery Management (《體育總局關於切實落實彩票資金專項審計意見加強體育彩票管理工作的通知》) by the General Administration of Sport of the PRC and the Notice on Issues Regarding Conducting Self-examination and Self-correction Activities of the Unauthorised Sale of Lottery through Internet (《關於開展擅自利用互聯網銷售彩票行為自查自糾工作有關問題的通知》) jointly promulgated by the Ministry of Finance, Ministry of Civil Affairs and the General Administration of Sport of the PRC.

### ***Blueseas Mobile Group***

On 1 April 2015, the Group completed the acquisition of the entire equity interest in Bluesea Mobile and its subsidiaries (collectively referred to as “Bluesea Mobile Group”); which is mainly engaged in the operation of a mobile and internet commercial WIFI platform, an Internet data center and a cross-border e-commerce platform. Bluesea Mobile’s key investment project, “Bluesea-free WIFI”, is a mobile and Internet commercial WIFI platform covering 20,000 data connection hotspots across 11 districts in Guangzhou linking schools, offices, popular gathering spots such as shopping malls and areas, industrial parks, hotels, food and beverage outlets, leisure resorts, government departments, hospitals, etc. Revenue contributed by Bluesea Mobile upon the completion mainly represents the services income from Bluesea-free WIFI.

## Provision of transmedia advertising services

During the period under review, Ease Ray Group's revenue has decreased as compared to the corresponding period in 2014 due to the temporary suspension of our services in various cities as a result of the policies implemented to regulate the traffic signboard advertising by the municipal governments.

## Peer to Peer lending platform business

On 1 April 2015, the Group completed the acquisition of 70% of the equity interest of Avatar Wealth through the acquisition of Bluesea Mobile. Avatar Wealth is engaged in running a peer to peer lending platform business. It offers a full range of products to lenders comprising housing loans, automobile loans, account receivables, supply chain and industry financing, leasing assets and pawn loans, and provides simplified, convenient and flexible financing solutions to both SME's and individual borrowers. Revenue contributed to the Group upon the completion of the acquisition represents the service income of the above-mentioned services.

## PROSPECTS

### Sale of telecommunications products and services

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, 廣東蔚海科技發展有限公司(Guangdong Bluesea Technology Company Limited\*), a wholly owned subsidiary of the Company, has set up a joint venture with 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\*), namely 廣東浪潮蔚海雲計算有限公司(Guangdong Inspur Bluesea Cloud Computing Company Limited\*) ("Guangdong Inspur Bluesea"), to establish a large cloud computing centre in Southern China. Leveraging Guangdong Inspur Bluesea's foundation and rapid growth in Guangdong as well as its brand awareness, the Group can solidify a business presence in Guangdong.

\* For identification purposes only

The management will continue to monitor the progress of various projects that the group companies are working on. In order to finance those projects, the Directors have proposed to raise funds by way of open offer. In the meantime, the Directors are in the process of reassessing these projects, particularly those are risky, loss making or require a significant amount of investment, to determine if any of them needs to be discontinued.

## **Provision of transmedia advertising services**

The management will continue to work with the municipal governments of Shangrao and Nanchang for a timetable of resuming our services and will continue to carry out maintenance work on the aged traffic signboards so as to maintain their normal operation.

## **Peer to peer lending platform business**

With the launch of the P2P lending platform business, 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.

## **Share Capital**

As at 1 January 2015, the authorised share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each and the issued share capital of the Company was approximately HK\$275,492,000 divided into 2,754,920,793 shares of HK\$0.10 each.

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.

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.

As at 30 June 2015, the authorised share capital of the Company was HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.10 each and the issued share capital of the Company was approximately HK\$615,584,000 divided into 6,155,841,586 shares of HK\$0.10 each.

## Financial Position

During the period under review, the Group generally financed its operations with internally generated resources and loan from a substantial shareholder. As at 30 June 2015, the Group had interest-bearing borrowings of HK\$97,384,000 (31 December 2014: HK\$27,320,000) which is due within one year.

As at 30 June 2015, the Group had current assets of approximately HK\$131,405,000 (31 December 2014: HK\$48,516,000), including cash and cash equivalents of approximately HK\$60,882,000 (31 December 2014: HK\$31,668,000), and trade receivables, prepayments, deposits and other receivables of approximately HK\$70,523,000 (31 December 2014: HK\$16,848,000); and current liabilities of approximately HK\$334,090,000 (31 December 2014: HK\$95,272,000). The Group's current ratio had decreased from approximately 0.5 times as at 31 December 2014 to approximately 0.4 times as at 30 June 2015.

The Group had total assets of approximately HK\$342,461,000 (31 December 2014: HK\$147,775,000) and total liabilities of approximately HK\$338,626,000 (31 December 2014: HK\$250,844,000), representing a gearing ratio (expressed as total liabilities to total assets) of approximately 101.1% (31 December 2014: 58.9%).

The Group's turnover for the six months ended 30 June 2015 amounted to approximately HK\$17,331,000 (2014: HK\$19,667,000).

## Charges on the Group's Assets

There were no material charges on the Group's assets as at 30 June 2015.

## Foreign Exchange Exposure and Treasury Policies

Most of the Group's cash balances and income are either denominated in Renminbi and Hong Kong dollars. In view of the stability of the exchange rates of Renminbi and Hong Kong dollars, no hedging or other alternatives have been implemented. As at 30 June 2015, the Group did not have any outstanding hedging instruments.

## Legal Proceedings

### *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.

## ***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.

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.

\* For identification purposes only

### *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 北京市海澱區人民法院 (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.

### *Labour Arbitration Claim*

On 12 January 2015, notices of claim of 69 former employees of CERNET Wifi were served on CERNET Wifi by 北京市海澱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”).

\* For identification purposes only

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.

## **Employee Information**

As at 30 June 2015, the Group had 154 employees. Salaries and benefits of the Group's employees were kept at a market level and employees were rewarded on a performance-related basis. Remuneration is reviewed annually. Staff benefits include contribution to mandatory contribution fund, discretionary bonus and share options. During the six months ended 30 June 2015, no share options were granted to employees of the Group.

## **Material Acquisition and Disposals**

### ***Blueseas Mobile Group***

On 1 April 2015, the Group completed the acquisition of the entire equity interest of Blueseas Mobile Group at a consideration of HK\$128,775,000.

Blueseas Mobile Group is mainly engaged in the operation of a mobile and Internet commercial WIFI platform, an Internet data center, a cross-border e-commerce platform and peer to peer lending platform.

For details of the acquisition, please refer to the Company's announcement dated 30 January 2015.

## ***CNCC Logistics Equipment Co., Ltd\* (“CNCC Logistics”)***

On 15 June 2015, Bluesea Mobile, a wholly owned subsidiary of the Company, entered into an agreement with 山東三星集團有限公司(Shandong Sanxing Group Co., Ltd.,\*) (“Shandong Sanxing”) pursuant to which Shandong Sanxing conditionally agreed to sell to Bluesea Mobile 43% of the equity interest of 中集物流裝備有限公司(CNCC Logistics Equipment Co., Ltd\*) for a consideration of RMB2,764,717 and Bluesea Mobile has agreed to contribute an additional amount of RMB18,500,000 as capital contribution to CNCC Logistics.

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 details of the acquisition of CNCC Logistics, please refer to the Company’s announcement dated 15 June 2015.

## **Significant Investments**

Other than the acquisition of Bluesea Mobile Group and CNCC Logistics, the Group did not make any significant investments during the six months ended 30 June 2015.

## **Segmental Information**

Details of segmental information of the Group as at 30 June 2015 are set out in note 3 to the Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2015.

\* For identification purposes only

## Advance to Entities

As disclosed in the announcement of the Company dated 19 June 2015, Neo Intelligence Holdings Limited (the “Subsidiary”), an indirect wholly-owned subsidiary of the Company, entered into a memorandum and understanding (the “MOU”) in relation to the possible acquisition of 80% equity interest in ACE International Electronics Limited and 80% equity interest in Giant Crown Industries Limited (“Giant Crown”) (collectively, “Possible Equity Transfer”) with Mr. Chan Hung Kwong, Mr. Chan Yu Chiu, Mr. Chan Yue Kuen (collectively, the “Vendors”) and Giant Crown. Pursuant to the MOU, the Subsidiary shall pay to the Vendors a refundable deposit in the amount of HK\$20 million (the “Deposit”), which was paid on 22 June 2015. The Deposit shall be returned to the Subsidiary (a) upon execution of a formal agreement to be entered into among the Subsidiary, the Vendors and Giant Crown setting forth in detail the terms, provisions and conditions for the Possible Equity Transfer; or (b) termination of the MOU; or (c) on 30 November 2015, whichever is the earlier (the “Latest Refund Date”).

Giant Crown undertakes to procure Guangzhou Gang Ju Electronics Industries Company Limited\*, a wholly-owned subsidiary of Giant Crown to grant the Subsidiary (or its nominee(s)) the right for free use of a property, which located at Block A, No. 144 Li Jiang Road, Shi Lou Town, Panyu District, Guangzhou, China with land size of approximately 22,000 square meters (the “Property”) so long as the amount of the Deposit is not refunded by the Vendors to the Subsidiary.

Each of Giant Crown and the Vendors irrevocably and unconditionally undertakes to procure Guangzhou Gang Ju to grant the perpetual right for free use of the Property to the Subsidiary (or its nominee(s)) in the event that the Vendors fail to refund the Deposit to the Subsidiary by the Latest Refund Date.

The payment of the Deposit constituted an advance to an entity for the Company under the GEM Listing Rules. As at 30 June 2015, the Deposit is not refunded.

\* For identification purposes only

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 June 2015, the interests or short positions of the Directors in the securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in the securities of the Company

Name of Director	Capacity	Number of shares/underlying shares held	Approximate percentage of shareholding
Mr. ZHANG Xinyu	Beneficial owner	40,000,000 (Note 1)	0.65%
Mr. XU Gang	Beneficial owner Interest of spouse (Note 2)	948,000 48,000	0.02% 0.00%
Mr. HUANG Zhixiong	Interest of spouse (Note 3)	11,356,000	0.18%

Notes:

1. These 40,000,000 underlying shares are derived from the share options granted by the Company.
2. Mr. Xu is interested in 48,000 shares of the Company held by his spouse, Ms. Yang Jintong.
3. Mr. Huang is interested in 11,356,000 shares of the Company held by his spouse, Ms. Gao Suzhen.

Save as disclosed above, the Directors did not have any interests or short positions in the securities of the Company as at 30 June 2015.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share option schemes" below, at no time during the period under review was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## SHARE OPTION SCHEMES

On 19 December 2012, the Company adopted a new share option scheme (the "New Scheme") as the share option scheme adopted on 22 July 2002 (the "Old Scheme") expired on 21 July 2012. The purpose of the share option schemes is to provide incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the share option schemes include Directors of the Company or any of its subsidiaries, independent non-executive Directors and employees of the Group, and suppliers of goods or services to the Group.

Upon the expiration of the Old Scheme, share options granted under the Old Scheme remained outstanding until they lapse in accordance with the terms of the Old Scheme. Particulars of the share options under the Old Scheme and their movements during the six months ended 30 June 2015 are set out below:

Name and category of participant	Date of grant	Exercisable period	Exercise price per share (HK\$) (note)	Number of share options					At 30 June 2015
				At 1 January 2015	Granted during the period	Exercised during the period	Lapsed during the period	Adjustment for bonus issue	
<b>Employees and others</b>									
In aggregate	8/4/2011	8/4/2011-7/4/2021	0.535	3,000,000	-	-	-	3,000,000	6,000,000
<b>Total</b>				3,000,000	-	-	-	3,000,000	6,000,000

Particulars of the share options under the New Scheme and their movements during the six months ended 30 June 2015 are set out below:

Name and category of participant	Date of grant	Exercisable period	Exercise price per share (HK\$) (note)	Number of share options					
				At 1 January 2015	Granted during the period	Exercised during the period	Lapsed during the period	Adjustment for bonus issue	At 30 June 2015
<b>Director</b>									
Mr. ZHANG Xinyu	3/4/2013	3/4/2013 – 2/4/2018	0.314	20,000,000	-	-	-	20,000,000	40,000,000
Subtotal				20,000,000	-	-	-	20,000,000	40,000,000
<b>Employees and others</b>									
In aggregate	3/4/2013	3/4/2013 – 2/4/2018	0.314	50,000,000	-	(20,000,000)	-	30,000,000	60,000,000
Subtotal				50,000,000	-	(20,000,000)	-	30,000,000	60,000,000
Total				70,000,000	-	(20,000,000)	-	30,000,000	100,000,000

note: The exercise prices of the share options have been adjusted for bonus issue that took place on 19 June 2015.

No share options was granted under the New Scheme during the six months ended 30 June 2015.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far is known to any Director, as at 30 June 2015, shareholders who had interests or short positions in the securities of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who were deemed to be directly and indirectly interested in 5% or more of the issued share capital of the Company, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

### Long positions in the shares of the Company

Name	Nature of interests	Number of ordinary shares held	Approximate percentage of shareholding
LIE Haiquan	Beneficial owner	1,179,816,000	19.17%
	Interest in controlled corporations (Note 1)	443,624,000	7.20%
YE Weiping	Beneficial owner	300,000,000	4.87%
	Interest in controlled corporations (Note 2)	218,000,000	3.54%

- Notes:
- 420,000,000 shares and 23,624,000 shares are held by Winner Mind Investments Limited ("Winner Mind") and Golden Ocean Assets Management Limited ("Golden Ocean") respectively, both companies are wholly-owned by Mr. LIE Haiquan. Thus, he was deemed to be interested in these 443,624,000 shares pursuant to the SFO.
  - 18,000,000 shares and 200,000,000 shares are held by Bluesea International Group Limited ("Bluesea International") and Bluesea Global Group Limited ("Bluesea Global") respectively, both companies are wholly-owned by Ms. YE Weiping. Thus, she was deemed to be interested in these 218,000,000 share pursuant to the SFO.

Save as disclosed above, the Company had no notice of any interests and short positions to be recorded pursuant to Section 336 of the SFO as at 30 June 2015.

## CORPORATE GOVERNANCE PRACTICES

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

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

Under code provision A.4.1, non-executive Directors should be appointed for specific term. There is no specific term of appointment of the non-executive Directors; however, they are subject to retirement by rotation in accordance with the articles of association of the Company ("Articles") and the Code on Corporate Governance Practices of the GEM Listing Rules. Accordingly, the Company considers that sufficient measures have been taken to deal with the requirement in respect of the appointment terms of non-executive Directors as required under the code provision.

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

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors during the six months ended 30 June 2015.

## **COMPETITION AND CONFLICT OF INTERESTS**

None of the Directors, the management shareholders or substantial shareholders of the Company or any of their respective close associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group during the six months ended 30 June 2015.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the six months ended 30 June 2015.

## AUDIT COMMITTEE

The Company established an audit committee (the “Audit Committee”) which comprises three independent non-executive Directors, with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls system of the Group. The Audit Committee has reviewed the Company’s unaudited financial statements for the six months ended 30 June 2015 and is of the opinion that such statements have complied with the applicable accounting standards and disclosure requirements.

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

Hong Kong, 13 August 2015

*As at the date of this report, 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.*

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