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Neo Telemedia Limited
中國新電信集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8167)

**SETTLEMENT OF THE CONVERTIBLE NOTES
AND
SHARE SUBSCRIPTION**

SETTLEMENT OF THE CONVERTIBLE NOTES

On 12 April 2016, the Company entered into the Settlement Agreement with the CN Holders and the Subscriber pursuant to which the Company will allot and issue 375,875,000 Subscription Shares to the Subscriber at the price of HK\$0.40 per Share. Upon the issue of the Subscription Shares, the obligation of the Company under the Tomlin Order and the Convertible Notes shall be fully and completely discharged and all claims of the CN Holders under the action in respect of the Tomlin Order shall stand dismissed. The CN Holders shall have no legal right to take any further action on the Tomlin Order and the Convertible Notes. The CN Holders shall deliver or procure the delivery of the Convertible Notes to the Company for cancellation. Upon the issue of the Subscription Shares, the Subscriber shall sell or procure the sale of the Subscription Shares at a selling price of not less than HK\$0.38 per Subscription Share within the Agreed Period and make payments of HK\$145,680,000, representing the sum of the principal amount the Convertible Notes of HK\$144,000,000 together with interest thereon of HK\$1,680,000, to the CN Holders in five payments, of which one payment shall be made within April 2016; two payments shall be made within May 2016; and two further payments shall be made within June 2016 or such other payment manner as mutually agreed by the Company and the Subscriber.

The Company shall irrevocably guarantee and undertake to the CN Holders jointly and severally the full repayment of up to the aggregate sum of HK\$145,680,000 should there be any failure of payment or shortfall in payments to the CN Holders by the Subscriber. The above undertaking shall be continuous until the full, final and complete discharge of the Company's liability as stated in the Settlement Agreement. In the event that the Company is required to pay any liabilities of the Outstanding Sum of HK\$145,680,000 to and for the CN Holders, the Subscriber irrevocably undertakes to forthwith and by the day of full payment of the Outstanding Sum and the Service Fee Amount transfer or procure transfer of all the Subscription Shares not yet sold by the Subscriber during the Agreed Period to an independent party designated by the Company and the Company shall have all the rights and benefits arising from and in relation to the above unsold Shares.

THE SHARE SUBSCRIPTION

On 12 April 2016, the Company entered into the Subscription Agreement with the Subscriber pursuant to which the Company shall allot and issue, and the Subscriber shall subscribe for the Subscription Shares at the Subscription Price.

The Subscription Price for the Subscription Shares was determined after arm's length negotiation between the Company and the Subscriber with reference to the recent trading prices of the Shares on the Stock Exchange. The Subscription Price of HK\$0.40 per Subscription Share represents: (i) a discount of approximately 9.1% to the closing price of HK\$0.44 per Share as quoted on the Stock Exchange as at the date of this announcement; (ii) a discount of approximately 4.3% to the average closing prices of HK\$0.418 per Share as quoted on the Stock Exchange for the five trading days up to and including the date of this announcement; (iii) a discount of approximately 3.4% to the average closing prices of HK\$0.414 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the date of this announcement; and (iv) a premium of approximately 196.3% over the Group's audited consolidated net asset per Share (excluding non-controlling interests) as at 31 December 2015 of approximately HK\$0.135, based on a total of 9,528,844,345 Shares as at the date of the Subscription Agreement and the Group's audited consolidated net asset value attributable to owners of the Company of approximately HK\$1,290,073,000 as at 31 December 2015.

The Subscription Shares shall rank *pari passu* in all respects with the Shares in issue at the completion of the Share Subscription. The Subscription Shares of 375,875,000 Shares representing approximately 3.9% of the issued share capital of the Company as at the date of the Subscription Agreement. The Subscription Shares will be issued under the General Mandate.

THE SETTLEMENT AGREEMENT

Date

12 April 2016 (after trading hours)

Parties

1. Arch Capital;
2. Hillgo Asia;
3. The Subscriber; and
4. The Company.

The Settlement of the Convertible Notes

Pursuant to the Settlement Agreement, the Company will allot and issue 375,875,000 Subscription Shares to the Subscriber at the price of HK\$0.40 per Share. Upon the issue of the Subscription Shares, the obligation of the Company under the Tomlin Order and the Convertible Notes shall be fully and completely discharged and all claims of the CN Holders under the action in respect of the Tomlin Order shall stand dismissed. The CN Holders shall have no legal right to take any further action on the Tomlin Order and the Convertible Notes. The CN Holders shall deliver or procure the delivery of the Convertible Notes to the Company for cancellation. Upon the issue of the Subscription Shares, the Subscriber shall sell or procure the sale of the Subscription Shares at a selling price of not less than HK\$0.38 per Subscription Share within the Agreed Period and make payments of HK\$145,680,000, representing the sum of the principal amount the Convertible Notes of HK\$144,000,000 together with interest thereon of HK\$1,680,000, to the CN Holders in five payments, of which one payment shall be made within April 2016; two payments shall be made within May 2016; and two further payments shall be made within June 2016 or such other payment manner as mutually agreed by the Company and the Subscriber.

The Company shall irrevocably guarantee and undertake to the CN Holders jointly and severally the full repayment of up to HK\$145,680,000, should there be any failure to pay or shortfall in the payment to the CN Holders by the Subscriber. The above undertaking shall be continuous until the full, final and complete discharge of the Company's liability as stated in the Settlement Agreement. In the event that the Company is required to pay any liabilities of the Outstanding Sum of HK\$145,680,000 to and for the CN Holders, the Subscriber irrevocably undertakes to forthwith and by the day of full payment of the Outstanding Sum and the Service Fee Amount transfer or procure transfer of all the Subscription Shares not yet sold by the Subscriber during the Agreed Period to an independent party designated by the Company and the Company shall have all the rights and benefits arising from and in relation to the above unsold Shares.

THE SUBSCRIPTION AGREEMENT

Date

12 April 2016 (after trading hours)

Parties

Issuer: The Company

Subscriber: A R Evans Capital Limited

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner(s) are Independent Third Parties.

The Share Subscription

Pursuant to the Subscription Agreement, the Company shall allot and issue, and the Subscriber shall subscribe for the Subscription Shares at the Subscription Price.

Upon the issue of the Subscription Shares, the Subscriber undertakes to sell or procure the sale of the Subscription Shares at a selling price of not less than HK\$0.38 per Subscription Share (the “**Shares Sale**”) within the Agreed Period and make payments to the CN Holders in the aggregate sum of the Outstanding Sum. Upon full payment of all the Outstanding Sum to the CN Holders by the Subscriber, the Subscriber irrevocably undertakes to forthwith inform the Company by written notice of such payments and provide the Company with the payment records and supporting documents in respect of the payment of the Outstanding Sum.

In the event that the actual selling price per Subscription Share (being a sum of not less than HK\$0.38 per Subscription Share) mentioned in the above is less than HK\$0.40 per Subscription Share and shortfall in payments of HK\$145,680,000 to the CN Holders by the Subscriber, the Company shall guarantee to pay to the CN Holders an aggregate amount equal to the shortfall between HK\$0.40 – the actual selling price per Subscription Share that would satisfy the Outstanding Sum of HK\$145,680,000.

In the event that the Company is required to pay any liabilities of the Outstanding Sum to and for the CN Holders, the Subscriber irrevocably undertakes to (i) forthwith provide the Company with all the records and supporting documents in relation to the Shares Sale; and (ii) forthwith and by the day of full payment of the Outstanding Sum and the Service Fee Amount transfer or procure transfer of all the Subscription Shares not yet sold by the Subscriber during the Agreed Period to an independent party designated by the Company and the Company shall have all the rights and benefits arising from and in relation to the unsold Shares.

The Subscription Shares

Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue a total of 375,875,000 Subscription Shares. As at the date of the Subscription Agreement, there were 9,528,844,345 Shares in issue and the Subscription Shares represent approximately 3.9% of the total issued share capital of the Company as at the date of the Subscription Agreement. The aggregate nominal value of the Subscription Shares is HK\$37,587,500.

The Subscription Price

The Subscription Price of HK\$0.40 per Subscription Share represents:

- (i) a discount of approximately 9.1% to the closing price of HK\$0.44 per Share as quoted on the Stock Exchange as at the date of this announcement;
- (ii) a discount of approximately 4.3% to the average closing prices of HK\$0.418 per Share as quoted on the Stock Exchange for the five trading days up to and including the date of this announcement;
- (iii) a discount of approximately 3.4% to the average closing prices of HK\$0.414 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the date of this announcement; and
- (iv) a premium of approximately 196.3% over the Group's audited consolidated net asset per Share (excluding non-controlling interests) as at 31 December 2015 of approximately HK\$0.135, based on a total of 9,528,844,345 Shares as at the date of the Subscription Agreement and the Group's audited consolidated net asset value attributable to owners of the Company of approximately HK\$1,290,073,000 as at 31 December 2015.

The Subscription Price was determined on arm's length basis between the Company and the Subscriber and based on the current market conditions and the prevailing Share price. The Directors (including the independent non-executive Directors) consider that the Subscription Price of the Subscription Shares is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Ranking of the Subscription Shares

The Subscription Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the existing Shares in issue, including as to the right to receive all dividends and distributions which may be declared made or paid after the completion date.

Conditions of the Share Subscription

The Share Subscription is conditional upon the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Subscription Shares.

If the Condition is not fulfilled by 29 April 2016 (or such other day as the parties may agree), the rights and obligations of the Subscriber and the Company in respect of the Share Subscription shall forthwith terminate and cease to have any effect.

Completion

Completion shall take place at the office of the Company as soon as possible following the satisfaction of the condition and within five Business Days immediately following the satisfaction of the condition (or such other date to be agreed by the parties).

Application for listing of the Subscription Shares

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

General Mandate to issue the Subscription Shares

The Subscription Shares will be issued under the General Mandate granted to the Directors pursuant to the resolution passed by the Shareholders at the AGM. Under the General Mandate, the Company is authorized to allot and otherwise deal with new Shares of up to 20% of the issued share capital of the Company as at the date of the AGM, which amounts to 1,905,768,869 new Shares. As at the date of this announcement, the Company has not allotted and issued any Shares under the General Mandate and the Subscription Shares to be allotted and issued will utilize as to approximately 19.7% of the General Mandate.

REASONS FOR THE SETTLEMENT AGREEMENT AND THE SHARE SUBSCRIPTION

Use of proceeds

Under the Settlement Agreement and the Subscription Agreement, the Company will allot and issue to the Subscriber 375,875,000 Subscription Shares at an issue price of HK\$0.40 per Subscription Share with an aggregate amount of approximately HK\$150,350,000 by applying the total amount of the Outstanding Amount.

Reasons and benefits

The Convertible Notes were matured on 5 April 2016. The CN Holders have been in negotiation with the Company for the settlement of the Convertible Notes. Since the conversion price of the Convertible Notes, which is HK\$1.10, is out of the money, the CN Holders have demanded for the repayment of the Convertible Notes. Finally, the Company and the CN Holders agreed that the Company will issue the Subscription Shares to the Subscriber which, as stated above, upon the issue of the Subscription Shares, the Subscriber shall sell or procure the sale of the Subscription Shares at a selling price of not less than HK\$0.38 per Subscription Share within the Agreed Period. The proceeds from the sale of the Subscription Shares will be applied for the repayment of the Outstanding Amount.

The Directors have considered other methods to raise fund, such as rights issue, open offer and placement. Even though the offer price for the offer shares has been set at a discount of 77.51% to the then market price of the Shares, the subscription rate for the open offer conducted by the Company last year was very low. Therefore, the Directors consider that (i) it would be difficult to engage an underwriter or a placing agent to conduct a rights issue, open offer or placement; and (ii) the issue price of the new Shares under the rights issue, open offer or placement may need to have a huge discount so as to attract the Shareholders and new investors to subscribe for the new Shares under a rights issue, open offer or placement.

Taking into account that (i) the repayment of the Convertible Notes through the sale of the Subscription Shares can reduce the amount of cash outflow of the Company; (ii) the price of the Subscription Shares is HK\$0.40 which represents a discount of only approximately 9.1% to the market price of HK\$0.44; and (iii) the issue of Subscription Shares represents only 3.9% of the existing issued share capital of the Company, the Directors are of the view that the Share Subscription is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

EFFECTS ON SHAREHOLDING STRUCTURE

The existing and enlarged shareholding structure of the Company as at the date of this announcement and immediately after completion of the Share Subscription is set out below:

	As at the date of this announcement		Immediately after completion of the Share Subscription	
	<i>No. of Shares</i>	<i>Approx. percentage</i>	<i>No. of Shares</i>	<i>Approx. Percentage</i>
Mr. Lie Hai Quan and parties acting in concert with him (<i>Note 1</i>)	3,928,359,357	41.23	3,928,359,357	39.66
Mr. Xu Gang (<i>Note 2</i>)	1,494,000	0.02	1,494,000	0.02
Mr. Huang Zhixiong (<i>Note 3</i>)	17,034,000	0.18	17,034,000	0.17
Subscriber	--	--	375,875,000	3.79
Other Shareholders	5,581,956,988	58.57	5,581,956,988	56.36
Total	<u>9,528,844,345</u>	<u>100.00</u>	<u>9,904,719,345</u>	<u>100.00</u>

Notes:

1. 2,055,887,357 Shares are held by Winner Mind Investments Limited, 35,436,000 Shares are held by Golden Ocean Assets Management Limited and 1,837,036,000 Shares are held by Mr. Lie Hai Quan. Both Winner Mind Investments Limited and Golden Ocean Assets Management Limited are wholly-owned by Mr. Lie Hai Quan.
2. Mr. Xu Gang is an executive Director. The 1,494,000 Shares include 72,000 Shares owned by the spouse of Mr. Xu Gang.
3. Mr. Huang Zhixiong is an independent non-executive Director. The 17,034,000 Shares are owned by the spouse of Mr. Huang Zhixiong.

GEM LISTING RULES IMPLICATION

The relevant percentage ratios calculated pursuant to Rule 19.06 of the GEM Listing Rules in respect of the Share Subscription does not exceed 5%.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Set out below is the fund raising activity of the Company in the 12 months immediately preceding release of this announcement:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds up to the date of this announcement
11 August 2015	Open offer on the basis of one offer share for every two shares held at a price of HK\$0.38 per offer share	Approximately HK\$1,089 million	Note	(i) approximately HK\$262.9 has been used in setting up the Internet data centre; (ii) approximately HK\$130 million has been used to acquire 60% interest in Guangzhou Zituo Technology Company Limited; and (iii) approximately HK\$47.5 has been used as general working capital of the Company.

Note:

(i) approximately HK\$125.0 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\$300.0 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\$99.5 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\$168.0 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\$107.5 million for carrying out logistics related business as referred to in the announcement of the Company dated 15 June 2015; (vi) approximately HK\$50.0 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\$239.0 million for general working capital of the Group and possible investments when investments opportunities arise.

GENERAL

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.

TERMS USED IN THIS ANNOUNCEMENT

In this announcement, unless the context otherwise required, the following terms and expressions shall have the following meanings when used herein.

“acting in concert”	has the meaning ascribed thereto in the Takeovers Code
“AGM”	the annual general meeting of the Company held on 1 April 2016
“Agreed Period”	within 3 months from the date of the issue and allotment of the Subscription Shares or such other period as mutually agreed by the parties
“Arch Capital”	Arch Capital Limited, a company incorporated in the British Virgin Islands with limited liability and holder of the Convertible Note 1
“associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Board”	board of Directors
“Business Day”	a day (other than a Saturday, a Sunday or any day on which a typhoon signal 8 or above or black rainstorm signal is hoisted in Hong Kong at 10:00 a.m.) on which banks in Hong Kong are generally open for business

“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
“CN Holders”	Arch Capital and Hillgo Asia, together hold the Convertible Notes in an aggregate principal amount of HK\$144,000,000
“connected person(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Convertible Note 1”	the convertible note held by Arch Capital with the principal amount of HK\$95,000,000.00 issued by the Company and falls due three (3) calendar years after the day of its issue on 5 April 2013
“Convertible Note 2”	the convertible note held by Hillgo Asia with the principal amount of HK\$49,000,000.00 issued by the Company and falls due three (3) calendar years after the day of its issue on 5 April 2013
“Convertible Notes”	the Convertible Note 1 and the Convertible Note 2
“Directors”	directors of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“General Mandate”	the mandate granted to the Directors by the Shareholders at the AGM to allot, issue and deal with up to 20% of the then issued share capital of the Company as at the date of the AGM
“Hillgo Asia”	Hillgo Asia Limited, a company incorporated in the British Virgin Islands with limited liability and holder of the Convertible Note 2
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent third Party(ies)”	any person or company and their respective ultimate beneficial owner(s), to the best knowledge, information and belief of the Directors and having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Outstanding Amount”	A total of HK\$150,350,000 including the Outstanding Sum and the Service Fee Amount
“Outstanding Sum”	the sum of the principal amount of the Convertible Notes of HK\$144,000,000 together with the interest thereon of HK\$1,680,000
“Service Fee Amount”	a service fee in the aggregate sum of HK\$4,670,000 charged by the Subscriber
“Settlement Agreement”	the agreement dated 12 April 2016 entered into between the CN Holders, the Company and the Subscriber in relation to the settlement of the Convertible Notes
“Share(s)”	ordinary share(s) of HK\$0.10 each in issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Subscription”	subscription of the Subscription Shares by the Subscriber pursuant to the Subscription Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	A R Evans Capital Limited, a company incorporated under the laws of Hong Kong
“Subscription Agreement”	the subscription agreement dated 12 April 2016 entered into between the Company and the Subscriber in relation to the Share Subscription
“Subscription Price”	the subscription price of the Subscription Shares, being HK\$0.40 per Subscription Share

“Subscription Share(s)”	the 375,875,000 Share(s) to be subscribed by the Subscriber pursuant to the Subscription Agreement
“Takeovers Code”	the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong
“Tomlin Order”	a Tomlin Order dated the 6th day of January 2016 under High Court Action No. 1281 of 2015 between the CN Holders as plaintiffs and the Company as defendant
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 12 April 2016

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

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

This announcement will remain on the GEM website on the “Latest Company Announcements” page for at least seven days from the date of its posting and on the website of the Company at www.neo-telemedia.com.