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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)

CHANGE IN USE OF PROCEEDS

Reference is made to the prospectus of Neo Telemedia Limited (the “**Company**”) dated 8 December 2015 (the “**Prospectus**”) in relation to the Open Offer and the announcements of the Company dated 30 June 2015 and 13 January 2016 (the “**Announcements**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as defined in the Prospectus and the Announcements.

USE OF PROCEEDS

The net proceeds from the Open Offer after deducting the costs and expenses in relation to the Open Offer amounted to approximately HK\$1,089.3 million (the “**Net Proceeds**”). It was disclosed under the section headed “REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS” in the Prospectus that it was intended to apply the Net Proceeds as follows:

- (i) 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;
- (ii) approximately HK\$168 million for carrying out 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 Type B customs warehouse;
- (iii) approximately HK\$107.5 million for carrying out logistics related business as referred to the announcement of the Company dated 15 June 2015;
- (iv) approximately HK\$50 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;
- (v) approximately HK\$125 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;

- (vi) approximately HK\$300 million for setting up Internet data centre (“IDC”) in the PRC with IDC standard cabinets for provision of, among others, value added services including data distribution and analysis and cloud related services; and
- (vii) approximately HK\$239.3 million (as adjusted after the expenses relating to the Open Offer were paid) for general working capital of the Group and possible investments when investments opportunities arise.

CHANGE IN USE OF PROCEEDS

As at the date of this announcement, the Company has utilized approximately HK\$744.7 million of the Net Proceeds and approximately HK\$344.6 million of the Net Proceeds remains unutilized for the intended purpose set out in the Prospectus (the “Unutilized Net Proceeds”). The Group has made use of part of the Unutilized Net Proceeds for providing short term loans to independent third parties with an aggregate amount of approximately HK\$330.7 million at interest rates ranging from 5% to 10% per annum to generate interest income to the Group. The short-term loans were only interim measures adopted by the Group for utilizing certain temporary idle funds for generating interest income for the interest of the Company and its shareholders. All the loans will fall due by 31 December 2018 and it is intended that the principal amount of the loans will then be utilized in the manner as discussed below.

As all of the applicable percentage ratios in respect of the provision of each of the aforesaid short term loans are less than 5% and to the best knowledge, information and belief of the Directors, each of the borrowers is independent among each other and from the Company and its connected persons, the provision of the aforesaid short term loans does not constitute a notifiable transaction under Chapter 19 or connected transaction under Chapter 20 of the GEM Listing Rules.

On 14 November 2018, the Board resolved to change the use of the Unutilized Net Proceeds. An analysis of the utilization of the Net Proceeds up to the date of this announcement and the proposed change of use of the Unutilized Net Proceeds is set out below:

	Intended use of Net Proceeds as disclosed in the Prospectus <i>HK\$ million</i> (approximately)	Utilized Net Proceeds up to the date of this announcement <i>HK\$ million</i> (approximately)	Unutilized Net Proceeds as at the date of this announcement <i>HK\$ million</i> (approximately)	Proposed application of the Unutilized Net Proceeds <i>HK\$ million</i> (approximately)
Development of mobile WiFi business in Guangdong Province (<i>Note 1</i>)	99.5	0.4	99.1	–
Development of cross-border e-commerce business (<i>Note 1</i>)	168.0	32.2	135.8	–
Development of logistics related business (<i>Note 2</i>)	107.5	21.8	85.7	–
Development of peer-to-peer (P2P) lending platform (<i>Note 1</i>)	50.0	26.0	24.0	–
Development of cloud computing business and building cloud computing platform in Jiangmen, Guangdong Province	125.0	125.0	–	322.6 (<i>Note 3</i>)
Setting up IDC in Panyu, Guangdong Province	300.0	300.0	–	–
General working capital and possible investments	239.3	239.3	–	22.0 (<i>Note 4</i>)
Total	1,089.3	744.7	344.6	344.6

Note:

1. The Directors are not aware of any indication that any assets in which the Company utilized the Net Proceeds to invest may be impaired as of the date of this announcement.
2. Of the Net Proceeds of approximately HK\$21.8 million utilized in the logistics related business, operating losses of approximately HK\$6.2 million, including impairment loss of approximately HK\$3.3 million on trade receivables, has been recognized in the previous financial years and the remaining HK\$15.6 million has been invested in certain office units for the logistics related business. Such office units are now occupied by the Group for other business use. As such, the Directors are not aware of any indication that such office units may be impaired as of the date of this announcement although the Directors consider that the Group is unlikely to continue the logistics related business.
3. Of this amount, approximately HK\$246.4 million will be applied to the remaining construction costs of the Project and approximately HK\$76.2 million will be used to repay bank borrowings that is used to finance the Project as discussed below.
4. This is intended to be used for part of operating expenses of the Company for a 12-month period.

REASONS FOR THE PROPOSED CHANGE

Development of mobile WiFi business in Guangdong Province

Guangdong Bluesea commenced the operation of the “blueseas-free WiFi” network in Guangzhou in 2015 on a trial basis. Although Guangdong Bluesea had accumulated a certain number of users with advertising revenue, it still incurred a loss for the years ended 31 December 2015 and 2016. The loss was mainly attributable to the network rentals paid to China Telecom Guangdong which could not be covered by the advertising revenue.

On the other hand, Guangdong Bluesea submitted mobile WiFi proposal to the universities in Guangdong Province and began to discuss with them the implementation details. However, Guangdong Bluesea was unable to reach an agreement with these universities on major terms of cooperation, particularly the WiFi usage charges and placement of advertisements in the WiFi network. Management of these universities insisted that students and faculty members should not be charged for the services and any placement of advertisements in the network was subject to their review and approval. Without these two sources of revenue, profitability of the project could not be secured. In addition, charges of 4G mobile services have decreased substantially recently. Customers would tend to use 4G mobile services which are advertisement free and more versatile as compared to mobile WiFi services.

Given the aforesaid uncertainties and having reassessed the risk and prospects of the mobile WiFi project, it was considered that making further investment in the mobile WiFi project is not in the best interest of the Group.

Development of cross-border e-commerce business

In accordance with the strategic cooperation framework agreement entered into by Guangdong Bluesea and China Postal Express & Logistics Co., Ltd., Guangdong Branch (“**China Post**”) on 29 April 2015, Guangdong Bluesea applied to Economic, Science and Technological Promotion Bureau of Chancheng District in Foshan on 29 May 2015 for the establishment of a cross-border e-commerce integrated zone, including a Type B customs warehouse, basing at Foshan International Furniture Expo Mall (the “**Application**”). Guangdong Bluesea established a joint venture company, namely 廣東蔚海聯郵有限公司 (Guangdong Bluesea Union Post Company Limited*)(“**Guangdong Bluesea Union Post**”), with two independent third parties designated by China Post on 4 November 2015. Although the local government’s representatives made several site visits and discussed different proposals with Guangdong Bluesea Union Post in late 2015 and 2016, approval for the Application had not been granted by the relevant authorities in the PRC.

Without obtaining the approval for the Application, the Group could not develop its proposed cross-border e-commerce business without a Type B customs warehouse. As such, it is not in the interest of the Group to further contribute capital or investment in it. As a result, the Group has disposed of its entire 60% interest in Guangdong Bluesea Union Post on 28 February 2017 with a gain of approximately HK\$1 million.

Development of logistics related business

Upon completion of Guangdong Bluesea’s acquisition of 43% of the equity interest in CNCC in June 2015, capital of RMB3 million had been contributed by the Group and a further sum of approximately RMB5.93 million by way of 12 term loans (the “**Term Loans**”) were subsequently contributed by the Group to CNCC during the period from October 2015 to March 2017 and further sum of approximately HK\$15.6 million were utilized for the business relating to CNCC and logistics related business.

Notwithstanding the above capital contribution and the Term Loans, the other two shareholders of CNCC (the “**Other CNCC Shareholders**”) did not contribute any capital to CNCC. In view of the default of CNCC’s repayment of the Term Loans and the Other CNCC Shareholders’ capital contribution, the Group held and suspended further capital contribution or monetary investment in CNCC. In addition, Guangdong Bluesea as plaintiff has taken legal action against CNCC and the Other CNCC Shareholders in respect of the repayment of the overdue Term Loans and all accrued interest thereon (the “**Term Loan Legal Action**”). Guangdong Bluesea succeeded in the Term Loan Legal Action and the relevant court of the PRC (the “**PRC Court**”) ruled in favour of Guangdong Bluesea. CNCC and the Other CNCC Shareholders are obligated to repay the outstanding sum to Guangdong Bluesea. Despite of the aforesaid ruling of the PRC Court, none of the outstanding sum were settled by CNCC and the Other CNCC Shareholders. As a result, the PRC Court also ordered freeze of the cash at bank of CNCC and the equity interest of the shareholders of CNCC. Guangdong Bluesea has also applied to the PRC Court for mandatory enforcement with a view to taking enforcement actions against CNCC and the Other CNCC Shareholders.

In view of the aforesaid, Guangdong Bluesea could not develop its logistics related business without the support, particularly technological know-how of logistics equipment and management know-how of logistics business, from the Other CNCC Shareholders. As such, it was considered that it is in the best interest of the Group not to further invest in the above logistics related business.

Development of peer-to-peer (P2P) lending platform

The Group operates P2P lending platforms through Avatar, an indirect 70% owned subsidiary of the Company, and 深圳市蜜蜂金服互聯網金融服務有限公司 (Shenzhen Bees Financial Internet Financial Services Company Limited*), an indirect 60% owned subsidiary of the Company.

After the completion of the Open Offer, the Group has invested approximately HK\$26 million in this business segment and the revenue and profit contributed to the Group have substantially increased. However, because of the fluctuation of the Internet lending environment in mainland China since the second quarter of 2018, investors became lack of confidence and borrowers failed to repay debts. Operations of the Group's Internet finance platform have been negatively affected. As such, the Group has engaged lawyers to set up a working group to participate in the operations of our Internet finance platform to ensure that interests of the investors and the Group are not compromised.

Development of cloud computing business and building cloud computing platform in Jiangmen, Guangdong Province

As the location of the Project was not confirmed and accordingly there was no funding required by Inspur Weihai, both Guangdong Bluesea Technology and Inspur Cloud Computing did not contribute capital to Inspur Weihai until the location of the Project has been selected. In December 2015, Inspur Cloud Computing requested to transfer its 60% equity interest in Inspur Weihai to 上海浪潮雲計算服務有限公司 (Shanghai Inspur Cloud Computing Services Company Limited*) ("**Shanghai Inspur**"), an associated company of Inspur Cloud Computing and the transfer was completed in March 2016.

On 12 January 2016, Guangdong Bluesea, Jiangmen Government, China Telecom Guangdong and China Construction Bank Corporation, Guangdong Branch entered into the Framework Agreement. Thereafter, location of the Project has been fixed at Heshan, a county-level city under the jurisdiction of Jiangmen, in Guangdong Province. After the location had been confirmed, Shanghai Inspur still did not contribute any capital in Inspur Weihai. To protect the interest of the Group, the Group has decided to develop the Project solely through 廣東蔚海數據發展有限公司 (Guangdong Bluesea Data Development Company Limited*) ("**Guangdong Bluesea Data**"), a wholly owned subsidiary of the Company.

* for identification purpose only

On 6 January 2017, Guangdong Bluesea Data acquired a land parcel in Heshan for the Project. The initial investment of the Project is estimated at approximately HK\$708.6 million, representing land cost of approximately HK\$45.5 million and construction cost of the major components of the Project, namely IDCs of approximately HK\$463.2 million, a maker centre of approximately HK\$142.4 million and research and development buildings of approximately HK\$57.5 million. Construction work of the Project commenced in April 2018 with an accumulated cost of approximately HK\$463 million incurred up to the date of this announcement, which is financed by HK\$125 million from the Net Proceeds as intended to be used in the Project and bank borrowings of approximately HK\$338 million. Construction of the Project is expected to be completed for services in 2019.

Given the increasing risk of this business segment, it was considered that making further investment in the P2P lending platform business is not in the best interest of the Group.

Having considered the status of aforesaid projects and the current business focus and strategies of the Company, the Directors are of the view that the Unutilized Net Proceeds originally allocated to the aforesaid projects can now be better utilized by being reallocated to: 1) finance the aforesaid construction costs of the Project, and 2) support the daily operation of the Group. The Directors consider that the above changes in the use of the Unutilized Net Proceeds would allow the Company to better accommodate with the changing business environment and deploy its financial resources more effectively. Such changes are therefore in the best interest of the Company and its shareholders as a whole.

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

Hong Kong, 14 November 2018

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

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief 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 “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and on the website of the Company at www.neo-telemedia.com.