



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

THIRD QUARTERLY REPORT 2020



CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

*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 GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:*

- 1. the information contained in this 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 in this report misleading.*

UNAUDITED RESULTS

The board of directors (the “**Board**”) of Neo Telemedia Limited (the “**Company**”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the nine and three months ended 30 September 2020 together with comparative unaudited figures for the corresponding period of 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the nine months ended 30 September		For the three months ended 30 September	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	3	375,137	603,872	81,527	191,292
Cost of sales		(324,833)	(542,489)	(62,086)	(162,403)
Gross profit		50,304	61,383	19,441	28,889
Other income and gains		4,814	4,929	1,718	1,283
Gain on disposal of subsidiaries		6,244	20,585	6,244	19,187
Gain on disposal of a joint venture		–	375	–	(5)
Selling and marketing costs		(17,827)	(22,336)	(8,825)	(5,910)
Administrative and other expenses		(105,359)	(115,205)	(35,631)	(37,884)
Change in expected credit loss recognised in respect of financial assets carried at amortised costs, net		9,925	10,975	(2,676)	–
Impairment loss recognised in respect of intangible asset		(33,358)	–	–	–
Share of results of joint venture		–	(82)	–	1
Finance costs		(2,737)	(1,172)	(588)	(306)
(Loss)/profit before tax		(87,994)	(40,548)	(20,317)	5,255
Income tax	4	11,452	2,289	677	1,676
(Loss)/profit for the period		(76,542)	(38,259)	(19,640)	6,931
(Loss)/profit for the period attributable to:					
Owners of the Company		(63,984)	(22,150)	(17,480)	13,130
Non-controlling interests		(12,558)	(16,109)	(2,160)	(6,199)
		(76,542)	(38,259)	(19,640)	6,931
		HK cents	HK cents	HK cents	HK cents
(Loss)/earnings per share	6				
– basic		(0.67)	(0.23)	(0.18)	0.14
– diluted		(0.67)	(0.23)	(0.18)	0.14

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the nine months ended 30 September		For the three months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
(Loss)/profit for the period	(76,542)	(38,259)	(19,640)	6,931
Other comprehensive income, net of income tax				
Items that may be subsequently reclassified to profit or loss:				
Exchange differences arising on translation of foreign operations	8,341	8,282	21,626	365
Reclassification adjustment relating to disposal of foreign operations during the period	(1,198)	–	(1,198)	–
Other comprehensive income for the period, net of tax	7,143	8,282	20,428	365
Total comprehensive (loss)/ income for the period	(69,399)	(29,977)	788	7,296
Total comprehensive (loss)/ income for the period attributable to:				
Owners of the Company	(57,519)	(11,209)	1,155	16,022
Non-controlling interests	(11,880)	(18,768)	(367)	(8,726)
	(69,399)	(29,977)	788	7,296

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

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 GEM of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The address of the registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and its principal place of business in Hong Kong is located at Room 901B, 9th Floor, Empire Centre, 68 Mody Road, Tsim Sha Tsui, Kowloon, Hong Kong.

The Company is an investment holding company and the principal activities of its subsidiaries are sale of telecommunication products and services.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements of the Company have been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“**GEM Listing Rules**”). The unaudited condensed consolidated financial statements have been prepared under the historical cost convention.

The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”). Other than those subsidiaries established in the People’s Republic of China (the “**PRC**”) whose functional currency is Renminbi (“**RMB**”) and some subsidiaries’ functional currency is the United States dollars, the functional currency of the Company and its remaining subsidiaries are HK\$. The reason for selecting HK\$ as its presentation currency is that the Company is a public company listed on GEM, where most of the investors are located in Hong Kong.

The accounting policies used in the preparation of the unaudited condensed consolidated financial statements have been consistently applied by the Group and are consistent with those used in preparing the Company’s annual audited financial statements for the year ended 31 December 2019, except that 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 these new or revised HKFRSs has had no material effect on the Group’s financial statements.

The unaudited condensed consolidated financial statements for the nine months ended 30 September 2020 have not been audited or reviewed by the Company’s auditors, but have been reviewed by the audit committee of the Company.

3. REVENUE

The Group was principally engaged in sale of telecommunication products and services during the nine and three months ended 30 September 2020. An analysis of revenue is as follows:

	For the nine months ended 30 September		For the three months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Sale of telecommunication products and services	370,188	589,719	79,042	187,266
Others	4,949	14,153	2,485	4,026
	375,137	603,872	81,527	191,292

Note: Others mainly represent income arising from provision of bus services and rental income. (2019: others mainly represent income arising from provision of bus services, rental income, insurance brokerage income and software development business service income).

4. INCOME TAX

Hong Kong Profits Tax was calculated at 16.5% on the estimated assessable profits. On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (“**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazette on the following day. Under the two-tiered profits tax rate regime, the first HK\$2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries are 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company, being qualified as a new and high technology enterprise, are eligible for a preferential Enterprise Income Tax rate of 15%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

5. DIVIDEND

The Directors resolved not to declare any dividend for the nine months ended 30 September 2020 (2019: Nil).

6. (LOSS)/EARNINGS PER SHARE

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

	For the nine months ended 30 September		For the three months ended 30 September	
	2020	2019	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
(Loss)/profit attributable to owners of the Company	(63,984)	(22,150)	(17,480)	13,130

	For the nine months ended 30 September		For the three months ended 30 September	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per ordinary share at the end of the period	9,522,184,345	9,522,184,345	9,522,184,345	9,522,184,345

The computation of diluted (loss)/earnings per share for the nine-month and three-month periods ended 30 September 2020 and 30 September 2019 does not assume the exercise of share options since the exercise prices are higher than the average share price.

7. SHARE CAPITAL AND RESERVES

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Share options reserve HK\$'000	Translation reserve HK\$'000	Statutory reserve HK\$'000	Accumulated losses HK\$'000	Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2019 (audited)	952,218	1,759,494	17,246	(29,445)	1,893	(1,466,965)	1,236,451	86,614	1,323,065
Loss for the period	-	-	-	-	-	(22,150)	(22,150)	(16,109)	(38,259)
Other comprehensive income:									
Exchange differences on translation of foreign operations	-	-	-	10,941	-	-	10,941	(2,669)	8,282
Total comprehensive loss for the period	-	-	-	10,941	-	(22,150)	(11,209)	(18,768)	(29,977)
Share options lapsed	-	-	(89)	-	-	89	-	-	-
At 30 September 2019 (unaudited)	952,218	1,759,494	17,157	(18,504)	1,893	(1,487,016)	(1,225,242)	67,846	1,293,088
At 1 January 2020 (audited)	952,218	1,759,494	17,157	(47,614)	1,893	(1,561,717)	1,121,431	65,715	1,187,146
Loss for the period	-	-	-	-	-	(63,984)	(63,984)	(12,558)	(76,542)
Other comprehensive income									
Reclassification adjustment relating to disposal of foreign operations during the period	-	-	-	(1,198)	-	-	(1,198)	-	(1,198)
Exchange difference on translation of foreign operations	-	-	-	7,663	-	-	7,663	678	8,341
Total comprehensive expenses for the period	-	-	-	6,465	-	(63,984)	(57,519)	(11,880)	(69,399)
Disposal of subsidiaries	-	-	-	-	-	-	-	12,858	12,858
Acquisition of non-controlling interests	-	-	-	-	-	(25,492)	(25,492)	4,226	(21,266)
Share options lapsed	-	-	(520)	-	-	520	-	-	-
At 30 September 2020 (unaudited)	952,218	1,759,494	16,637	(41,149)	1,893	(1,650,673)	1,038,420	70,919	1,109,339

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 30 September 2020, the Group recorded a revenue of approximately HK\$375,137,000 (2019: HK\$603,872,000), representing a decrease of approximately HK\$228,735,000 or 37.9% as compared to the same period last year. The decrease in revenue was mainly due to the decrease in revenue from the trading of mobile device business in Hong Kong which was ceased in March 2020.

The Group's loss attributable to owners of the Company for the nine months ended 30 September 2020 is approximately HK\$63,984,000 (2019: HK\$22,150,000). The increase in loss for the period is mainly due to (i) the impairment loss on intangible asset of approximately HK\$33,358,000 (2019: Nil) in respect of the trading of telecommunication product business in mainland China; and (ii) the decrease in gain on disposal of subsidiaries of approximately HK\$14,341,000 to approximately HK\$6,244,000 (2019: HK\$20,585,000), as compared to the same period last year.

Business Review

Sale of telecommunication products and services

During the period under review, the revenue of sale of telecommunication products and services business was approximately HK\$370,188,000 (2019: HK\$589,719,000). Under the business segment of sale of telecommunication products and services, there are two main businesses, namely (1) provision of Internet data center (“IDC”) services, and (2) trading of telecommunication products.

For the provision of IDC services, the Group provides IDC services to its customers in mainland China through self-owned IDCs and server cabinets leased from independent third parties. The Group currently owns two IDCs in Guangzhou, namely Guangzhou Lotus Hill Data Center and Guangzhou (Nanxiang) Cloud Data Center, which provide 1,499 and 1,355 server cabinets, respectively. For the nine months period ended 30 September 2020, the provision of IDC service business had contributed revenue of approximately HK\$244 million (2019: HK\$253 million).

During the outbreak of COVID-19, the Group's customers have delayed to house their servers and data storage in the abovementioned IDCs, which has affected the Group's revenue as well as profit for the period under review.

For the trading of telecommunication products, as there has been no improvement in the global mobile business environment since the third quarter of 2019 and the outbreak of COVID-19 during the period under review, the Group did not receive any purchase order from its customers under the trading of mobile device business in Hong Kong. In addition, albeit ongoing negotiation with the Group's suppliers since 2019, it was still unable to secure the supply of 5G mobile devices that the Group considered to be a major source of revenue from the trading of mobile device business in Hong Kong.

In light of the above, the Board has resolved to cease the trading of mobile device business in Hong Kong during the period under review.

The outbreak of COVID-19 and the fierce competition of the telecommunication market have also negatively impacted the Group's trading of telecommunication product business in mainland China. After fulfilling the sale orders in the first quarter of 2020, the Group did not generate any revenue from the trading business in mainland China during the second quarter of 2020. Having reviewed its profitability and assessed its prospects, the Group has decided to suspend its trading business in mainland China in order to concentrate its resources in its IDC operations, a more profitable business. As it is uncertain whether the trading business in mainland China will generate cash flow in future, the Group has fully written off the relevant intangible assets, i.e. customer relationships, of approximately HK\$33,358,000.

Internet finance platform business

During the period under review, the Group's Internet finance platform business did not generate any revenue (2019: Nil). Since the third quarter of 2018, 深圳市蜜蜂金服互聯網金融服務有限公司 (Shenzhen Bees Financial Internet Financial Services Co. Ltd.)* ("**Bees Financial**") has limited its operation to collecting debts from borrowers and repaying the investors and no new loans have been transacted through its platform in order to comply with the relevant rules and regulations.

Due to the above reasons and in order to save costs of debt collection and to realise the investment in Bees Financial, the Group has disposed of Bees Financial to an independent third party for a consideration of HK\$1,126,000 during the period under review. The Group has recorded a gain on disposal of approximately HK\$6,224,000.

Business Prospects

Looking forward, the Group will continue to focus on its IDC business. While the construction work of the IDCs in Heshan City has been behind schedule due to the outbreak of COVID-19, it is expected that it will be put in service in the first half of 2021. Together with more customers moving into the abovementioned two IDCs in Guangzhou as the COVID-19 restrictions have begun to ease, more revenue will be contributed therefrom in the coming years.

* For identification purpose only

Moreover, while the Group is focusing on increasing the utilisation of its two IDCs in Guangzhou, the Group will continue to explore potential investment opportunities in IDC, Internet of Things, cloud computing and related businesses. With favorable policies and support from the PRC government towards these fast growing sectors, the management is optimistic that the Group will be able to reward shareholders with better results in the foreseeable future.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 September 2020, 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 held	Number of underlying shares held (Note 2)	Approximate percentage of shareholding
Dr. LIE Haiquan	Beneficial owner	2,232,160,000	9,000,000	23.54%
	Interest in controlled corporations (Note 1)	2,091,923,357	–	21.97%
Mr. CHEUNG Sing Tai	Beneficial owner	–	18,000,000	0.19%
Mr. TAO Wei	Beneficial owner	–	6,000,000	0.06%
Mr. ZHANG Zihua	Beneficial owner	–	1,000,000	0.01%
Ms. XI Lina	Beneficial owner	–	1,000,000	0.01%
Mr. HUANG Zhixiong	Beneficial owner	–	1,000,000	0.01%

Notes:

- 2,055,887,357 shares and 36,036,000 shares are held by Winner Mind Investments Limited (“Winner Mind”) and Golden Ocean Assets Management Limited respectively, both companies are wholly-owned by Dr. LIE Haiquan. Thus, he was deemed to be interested in these 2,091,923,357 shares pursuant to the SFO.
- These underlying shares are derived from the share options granted by the Company.

Save as disclosed above, the Directors did not have any interests or short positions in the securities of the Company as at 30 September 2020.

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 and their movements during the nine months ended 30 September 2020 are set out below:

Name of category of participant	Date of grant	Exercise period	Exercise price per share	Number of share options			At 30 September 2020
				At 1 January 2020	Lapsed during the period	Reallocated during the period	
Directors							
Dr. LIE Haiquan	9.4.2018	9.4.2018 to 8.4.2021	0.250	9,000,000	-	-	9,000,000
Mr. CHEUNG Sing Tai	9.4.2018	9.4.2018 to 8.4.2021	0.250	18,000,000	-	-	18,000,000
Mr. XU Gang	9.4.2018	9.4.2018 to 8.4.2021	0.250	6,000,000	-	(6,000,000)	-
Mr. TAO Wei	9.4.2018	9.4.2018 to 8.4.2021	0.250	6,000,000	-	-	6,000,000
Mr. ZHANG Zihua	9.4.2018	9.4.2018 to 8.4.2021	0.250	1,000,000	-	-	1,000,000
Ms. XI Lina	9.4.2018	9.4.2018 to 8.4.2021	0.250	1,000,000	-	-	1,000,000
Mr. HUANG Zhixiong	9.4.2018	9.4.2018 to 8.4.2021	0.250	1,000,000	-	-	1,000,000
				42,000,000	-	(6,000,000)	36,000,000
Employees							
	31.1.2018	31.1.2018 to 30.1.2021	0.250	65,200,000	(10,700,000)	6,000,000	60,500,000
				65,200,000	(10,700,000)	6,000,000	60,500,000
Others							
	8.4.2011	8.4.2011 to 7.4.2021	0.469	6,840,000	-	-	6,840,000
	31.1.2018	31.1.2018 to 30.1.2021	0.250	126,000,000	-	-	126,000,000
	9.4.2018	9.4.2018 to 8.4.2021	0.250	92,000,000	-	-	92,000,000
				224,840,000	-	-	224,840,000
Total				332,040,000	(10,700,000)	-	321,340,000

Note: On 10 July 2020, Mr. XU Gang resigned as a Director but has remained as a director of certain subsidiaries of the Company. His share options have been reallocated to "Employees".

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far is known to any Director, as at 30 September 2020, 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 shares/underlying shares held	Approximate percentage of shareholding
Winner Mind (Note)	Beneficial owner	2,055,887,357	21.59%

Note: Winner Mind is wholly-owned by Dr. LIE Haiquan.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors 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 nine months ended 30 September 2020.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2020.

CHANGE OF DIRECTORS

On 10 July 2020, Mr. XU Gang resigned as an executive Director due to his other work commitments and Mr. WU Di was appointed as an executive Director. Mr. Xu has remained as a director of certain subsidiaries of the Company.

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 system and to review the risk management and internal controls systems of the Group. The Audit Committee has reviewed the Company’s unaudited financial statements for the three months and the nine months ended 30 September 2020 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
Dr. LIE Haiquan
Chairman

Hong Kong, 11 November 2020

As at the date of this report, the Board comprises four executive Directors, namely Dr. LIE Haiquan (Chairman), Mr. CHEUNG Sing Tai (Deputy Chairman and Chief Executive Officer), Mr. TAO Wei and Mr. WU Di, and three independent non-executive Directors, namely Mr. ZHANG Zihua, 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 and on the website of the Company at www.neo-telemedia.com.