# 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)**

## RESULTS ANNOUNCEMENT
## FOR THE YEAR ENDED 31 DECEMBER 2018

**CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "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 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, 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 Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**



*This announcement, 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 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 announcement 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 announcement misleading.*

## FINAL RESULTS

The board of Directors ("**Board**") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018, together with the comparative figures for the year ended 31 December 2017 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

| | *Notes* | **2018** *HK$'000* | 2017 *HK$'000* |
|---|---|---|---|
| **Revenue** | *4* | **2,529,051** | 1,214,772 |
| Cost of sales | | **(2,340,730)** | (981,079) |
| **Gross profit** | | **188,321** | 233,693 |
| Other income and gains | | **26,205** | 28,876 |
| Gain on disposal of subsidiaries | | **–** | 8,960 |
| Changes in fair value of contingent consideration payable | | **–** | (5,650) |
| Selling and marketing costs | | **(35,625)** | (29,631) |
| Administrative and other expenses | | **(185,195)** | (161,271) |
| Credit loss expenses/impairment loss recognised in respect of financial assets carried at amortised costs | | **(7,294)** | (3,260) |
| Impairment loss on intangible assets | | **(23,883)** | – |
| Impairment loss recognised in respect of goodwill | | **(63,904)** | – |
| Equity-settled share-based payment expenses | | **(17,202)** | – |
| Share of results of joint venture | | **(194)** | (106) |
| Finance costs | | **(7,726)** | (3,884) |
| **(Loss)/Profit before tax** | *7* | **(126,497)** | 67,727 |
| Income tax expense | *6* | **(498)** | (14,667) |
| **(Loss)/Profit for the year** | | **(126,995)** | 53,060 |
| **Other comprehensive (loss)/income for the year, net of tax** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising during the year | | **(49,604)** | 69,544 |
| Reclassification adjustment relating to disposal of foreign operations during the year | | **–** | (2,275) |
| | | **(49,604)** | 67,269 |
| **Total comprehensive (loss)/income for the year** | | **(176,599)** | 120,329 |

| | Notes | **2018** *HK$'000* | 2017 *HK$'000* |
|---|---|---|---|
| **(Loss)/Profit for the year attributable to:** | | | |
| Owners of the Company | | **(84,425)** | 40,905 |
| Non-controlling interests | | **(42,570)** | 12,155 |
| | | **(126,995)** | 53,060 |
| **Total comprehensive (loss)/income attributable to:** | | | |
| Owners of the Company | | **(129,235)** | 101,657 |
| Non-controlling interests | | **(47,364)** | 18,672 |
| | | **(176,599)** | 120,329 |
| | | ***HK Cents*** | *HK Cents* |
| **(Loss)/Earnings per share** | *8* | | |
| Basic | | **(0.89)** | 0.43 |
| Diluted | | **(0.89)** | 0.43 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*For the year ended 31 December 2018*

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current Assents** | | | |
| Property, plant and equipment | | **679,476** | 593,000 |
| Prepaid lease payments | | **39,189** | 42,129 |
| Interests in an associate | | **–** | – |
| Interests in a joint venture | | **270** | 469 |
| Goodwill | | **131,235** | 195,139 |
| Intangible assets | | **230,908** | 292,059 |
| Note receivable | | **–** | 67,692 |
| Prepayment for property, plant and equipment | | **719,646** | – |
| Deferred tax assets | | **22,303** | – |
| | | **1,823,027** | 1,190,488 |
| **Current Assets** | | | |
| Inventories | | **5,067** | 8,124 |
| Accounts receivable | *10* | **229,425** | 725,354 |
| Prepayments, deposits and other receivables | | **163,118** | 357,161 |
| Note receivable | | **60,853** | – |
| Financial assets at fair value through profit or loss | | **–** | 59,900 |
| Cash and cash equivalents | | **36,747** | 164,437 |
| | | **495,210** | 1,314,976 |
| **Current Liabilities** | | | |
| Accounts payable | *11* | **130,622** | 537,769 |
| Other payables and accruals | | **57,040** | 38,770 |
| Receipt in advances | | **–** | 10,216 |
| Contract liabilities | | **3,433** | – |
| Bank borrowings | | **682,261** | 119,800 |
| Contingent consideration payable | | **–** | 30,000 |
| Tax liabilities | | **65,600** | 56,337 |
| | | **938,956** | 792,892 |
| **Net Current (Liabilities)/Assets** | | **(443,746)** | 522,084 |
| **Total Assets less Current Liabilities** | | **1,379,281** | 1,712,572 |

| | Notes | **2018** | 2017 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Non-current Liabilities** | | | |
| Deferred tax liabilities | | **53,667** | 65,830 |
| | | **53,667** | 65,830 |
| **Net Assets** | | **1,325,614** | 1,646,742 |
| **Capital and Reserves** | | | |
| Share capital | | **952,218** | 952,884 |
| Reserves | | **286,037** | 557,571 |
| Equity attributable to owners of the Company | | **1,238,255** | 1,510,455 |
| Non-controlling interests | | **87,359** | 136,287 |
| **Total Equity** | | **1,325,614** | 1,646,742 |

## 1. CORPORATE AND GROUP INFORMATION

Neo Telemedia Limited (the "**Company**") is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on 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 1906-8, 19th Floor, Harcourt House, 39 Gloucester Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("**HK$**"). Other than those subsidiaries established in the People's Republic of China (the "**PRC**") whose functional currency is Renminbi ("**RMB**") and some subsidiaries' functional currency in US Dollars ("**USD**"), the functional currency of the Company and its remaining subsidiaries are HK$. 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 Company is an investment holding company and the principal activities of its subsidiaries are sale of telecommunication products and services, and operation of Internet finance platform business.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

**Amendments to HKFRSs that are mandatorily effective for the current year**

The Group has applied the following amendments to HKFRSs and Hong Kong Accounting Standards ("**HKASs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") for the first time in the current year:

| | |
|---|---|
| HKAS 28 (Amendments) | As part of Annual Improvements to HKFRSs 2014-2016 Cycle |
| HKAS 40 (Amendments) | Transfer of Investment Property |
| HKFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transactions |
| HKFRS 4 (Amendments) | Applying HKFRS 9, Financial Instruments with HKFRS 4, Insurance Contracts |
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| HKFRS 15 (Amendments) | Clarification to HKFRS 15, Revenue from Contracts with Customers |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |

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

The above new HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

**Impact on the consolidated financial statements**

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the application of new HKFRSs have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

| **Consolidated statement of financial position (extract)** | **31 December 2017** | **HKFRS 9** | **HKFRS 15** | **1 January 2018** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current assets** | | | | |
| Note receivable | **67,692** | **(9,635)** | **–** | **58,057** |
| Deferred tax assets | **–** | **26,633** | **–** | **26,633** |
| **Current assets** | | | | |
| Accounts receivable | **725,354** | **(103,108)** | **–** | **622,246** |
| Deposit and other receivables | **315,541** | **(44,507)** | **–** | **271,034** |
| **Current liabilities** | | | | |
| Receipt in advances | **10,216** | **–** | **(10,216)** | **–** |
| Contract liabilities | **–** | **–** | **10,216** | **10,216** |
| **Net assets** | **1,646,742** | **(130,617)** | **–** | **1,516,125** |
| **Capital and reserves** | | | | |
| Reserves | **557,571** | **(122,309)** | **–** | **435,262** |
| Non-controlling interests | **136,287** | **(8,308)** | **–** | **127,979** |
| Total equity | **1,646,742** | **(130,617)** | **–** | **1,516,125** |

**HKFRS 9 Financial Instruments**

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("**ECL**") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

**Summary of effects arising from initial application of HKFRS 9**

***(a) Classification and measurement***

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("**FVOCI**") and at fair value through profit or loss ("**FVPL**"). These supersede HKAS 39 's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial assets is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– Amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including) interest are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

There is no reclassification or remeasurement of the financial assets, including cash and cash equivalent, accounts receivable, deposit and other receivables and note receivable for the adoption of HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

### (b) *Impairment under ECL model*

The Group applies the HKFRS 9 general approach to measure ECL. ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

As at 1 January 2018, additional credit loss allowance of approximately HK$146,706,000 and HK$10,544,000 has been recognised against accumulated losses and non-controlling interests, respectively. The additional loss allowance is charged against the respective asset.

*Impact on opening consolidation statement of financial position arising from the application of all new standards*

All loss allowances, including accounts receivable, note receivable and other financial assets at amortised cost, as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

| | **Accounts receivable** *HK$'000* | **Note receivable** *HK$'000* | **Deposit and other receivables** *HK$'000* |
|---|---|---|---|
| At 31 December 2017 – HKAS 39 | 725,354 | 67,692 | 315,541 |
| Amounts re-measured through opening – accumulated losses | (94,020) | (9,635) | (43,051) |
| Amounts re-measured through opening – non-controlling interests | (9,088) | – | (1,456) |
| At 1 January 2018 – HKFRS 9 | 622,246 | 58,057 | 271,034 |

**New And Amendments To HKFRSs In Issue But Not Yet Effective**

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2015-2017 Cycle[1] |
| HKAS 1 and HKAS 8 (Amendments) | Definition of a Material[5] |
| HKAS 19 (Amendments) | Plan amendment, curtailment or settlement[1] |
| HKAS 28 (Amendments) | Investment in associates and joint ventures[1] |
| HKFRS 3 (Amendments) | Definition of a Business[4] |
| HKFRS 9 (Amendments) | Prepayment features with negative compensation[1] |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contract[2] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |

[1] Effective for annual periods beginning on or after 1 January 2019.
[2] Effective for annual periods beginning on or 1 January 2021.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period on or after 1 January 2020.
[5] Effective for annual periods beginning on or after 1 January 2020.

**HKFRS 16 Leases**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$45,594,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Except disclosed above, the directors of the Company do not anticipate that the application of other new and revised HKFRSs will have a material impact on the Group's financial performance and financial positions.

## 3. BASIS OF PREPARATION

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

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

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

The principal accounting policies are set out below.

**Going Concern**

The Group incurred a net loss of approximately HK$126,995,000 for the year ended 31 December 2018. As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately HK$443,746,000. Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of the going concern basis is dependent upon the success of the Group's future operations, its ability to generate adequate cash flows in order to meet its obligations as and when fall due and its ability to refinance or restructure its borrowings such that the Group can meet its future working capital and financing requirements.

In the opinion of the Directors, the Group is able to maintain itself as a going concern in the coming year by taking into consideration that:

(i) the cash flow projections can be achieved that the Group would have sufficient working capital to finance its operation and to meet its financial obligations when they fall due within the next twelve months from the end of the reporting period;

(ii) the net assets of the Group of approximately HK$1,325,614,000, the Group should be able to secure additional loan facilities, if necessary;

(iii) bank loans with carrying amount of approximately HK$281,413,000 as at 31 December 2018 that are repayable more than one year after the end of the reporting period pursuant to the repayment schedule included in the loan agreements, with a repayment on demand clause, has been classified as current liability as at 31 December 2018 in accordance with Hong Kong Interpretation 5 Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause. Taking into account the Group's financial position and the security provided to the bank, the Directors believe that the bank will not exercise its discretionary rights to demand immediate repayment. The Directors believe that the bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements; and

(iv) bank loans with carrying amount of approximately HK$223,244,000 as at 31 December 2018 that are repayable within one year after the end of the reporting period, will be refinanced with China Construction Bank Corporation ("**CCB**") upon maturity since the Group has a 10-year unutilised banking facilities of approximately HK$1,169,753,000 granted by CCB as at 31 December 2018.

**BASIS OF CONSOLIDATION**

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

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

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

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

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

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

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

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

**Allocation of total comprehensive income to non-controlling interests**

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

**Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

## 4. REVENUE

Revenue represents the net amounts received and receivable for goods sold or services provided by the Group to outside customers, less returns and discounts and sales related taxes.

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sale of telecommunication products and services | **2,460,271** | 1,097,916 |
| Internet finance platform | **43,906** | 108,273 |
| Others | **24,874** | 8,583 |
| | **2,529,051** | 1,214,772 |
| Disaggregation by timing of revenue recognition: | | |
| At a point in time | **2,094,396** | 962,574 |
| Over time | **421,572** | 245,199 |
| Revenue from other source | **13,083** | 6,999 |
| | **2,529,051** | 1,214,772 |

## 5. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organised and managed.

Specifically, the Group's reportable and operating segments under HKFRS 8 are as follows:

– Sale of telecommunication products and services

– Internet finance platform

The Group reportable segments are strategic business units that operate different activities. They are managed separately because each business has different markets and requires different marketing strategies.

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

| | Sale of telecommunication products and services | | Internet finance platform | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Revenue** | **2,460,271** | 1,097,916 | **43,906** | 108,273 | **24,874** | 8,583 | **2,529,051** | 1,214,772 |
| **Segment results** | **(5,091)** | 34,343 | **(88,107)** | 29,482 | **(17,291)** | (3,932) | **(110,489)** | 59,893 |
| Interest income | | | | | | | **24,908** | 13,183 |
| Gain on disposal of subsidiaries | | | | | | | **–** | 8,960 |
| Recovery of debts from disposed subsidiaries | | | | | | | **–** | 11,516 |
| Other income and gain | | | | | | | **124** | – |
| Share of results of joint venture | | | | | | | **(194)** | (106) |
| Unallocated corporate expenses | | | | | | | **(40,846)** | (25,719) |
| Unallocated finance costs | | | | | | | **–** | – |
| (Loss)/profit before tax | | | | | | | **(126,497)** | 67,727 |
| Income tax expense | | | | | | | **(498)** | (14,667) |
| (Loss)/profit for the year | | | | | | | **(126,995)** | 53,060 |

*Note:* Others represent other operating segments that are not reportable segments under HKFRS 8, which include logistics related business, insurance brokerage and software development business.

Segment revenue reported above represents revenue generated from external customers. There was no inter-segment sales in both year. The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit or loss from each segment without allocation of interest income, central administration costs, directors' emoluments and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

**Segment assets and liabilities**

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

| | Sale of telecommunication products and services | | Internet finance platform | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Segment assets | **2,183,656** | 2,257,823 | **17,034** | 112,892 | **26,698** | 26,994 | **2,227,388** | 2,397,709 |
| Unallocated corporate assets | | | | | | | **90,849** | 107,755 |
| Consolidated assets | | | | | | | **2,318,237** | 2,505,464 |
| Segment liabilities | **933,235** | 792,226 | **43,153** | 49,732 | **11,239** | 13,334 | **987,627** | 855,292 |
| Unallocated corporate liabilities | | | | | | | **4,996** | 3,430 |
| Consolidated liabilities | | | | | | | **992,623** | 858,722 |

For the purpose of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments other than unallocated corporate assets (mainly comprising certain of prepayments, deposits and other receivables, and derivative financial assets); and

- all liabilities are allocated to operating segments other than unallocated corporate liabilities (mainly comprising receipts in advances, contingent consideration payable and other payables and accruals.

**Other segment information**

| | Sale of telecommunication products and services | | Internet finance platform | | Others | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Amount included in the measure of segment results | | | | | | | | | | |
| Capital expenditure | **893,625** | 195,182 | **829** | 740 | **3,350** | 6,907 | **14** | 164 | **897,818** | 202,993 |
| Depreciation of property, plant and equipment | **31,116** | 14,236 | **1,372** | 1,211 | **6,489** | 2,847 | **1,860** | 1,890 | **40,837** | 20,184 |
| Amortisation of intangible assets | **34,380** | 33,494 | **2,445** | 2,459 | **314** | 235 | **–** | – | **37,139** | 36,188 |
| Amortisation of prepaid lease payments | **864** | 616 | **–** | – | **–** | – | **–** | – | **864** | 616 |
| Impairment loss on goodwill | **50,000** | – | **13,904** | – | **–** | – | **–** | – | **63,904** | – |
| Impairment loss on intangible assets | **–** | – | **14,412** | – | **9,471** | – | **–** | – | **23,883** | – |
| Credit loss (reversal)/expenses/impairment loss recognised in respect of financial assets carried at amortised costs | **(26,562)** | 3,260 | **32,885** | – | **414** | – | **557** | – | **7,294** | 3,260 |

Capital expenditure for the year ended 31 December 2017 includes additions of an insurance brokerage license and prepaid lease payments, amounting to approximately HK$1,568,000 and HK$41,099,000 respectively.

Capital expenditure for the year ended 31 December 2018 includes acquisition of assets through business combinations and prepayment for property, plant and equipment of approximately HK$7,000 and HK$748,646,000 respectively.

| | Sale of telecommunication products and services | | Internet finance platform | | Others | | Unallocated | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest income | **21,188** | 10,660 | **3** | 27 | **–** | 2 | **3,717** | 2,494 | **24,908** | 13,183 |
| Finance costs | **7,726** | 3,884 | **–** | – | **–** | – | **–** | – | **7,726** | 3,884 |
| Income tax (expense)/credit | **(6,314)** | (5,834) | **5,399** | (8,871) | **323** | 38 | **94** | – | **(498)** | (14,667) |

***Information about major customers***

Revenue from major customers of the corresponding year contributing over 10% of the total revenue of the Group are as follows:

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A[1] | **771,413** | 134,184 |
| Customer B[1,2] | **771,461** | – |
| | **1,542,874** | 134,184 |

1 Sale of telecommunication products and services.

2 No information on revenue for prior year is disclosed for this customers since it contributed less than 10% to the Group's revenue for the year ended 31 December 2017.

***Geographical information***

The Group's operations are mainly located in Hong Kong and the PRC.

Information about the Group's revenue from external customers is presented based on the geographical location of the customers, and non-current assets information is presented based on the geographical location of the assets.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

| | **Revenue from external customers** | | **Non-current assets*** | |
|---|---|---|---|---|
| | | | **31 December** | 31 December |
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Name of the region | | | | |
| Hong Kong | **1,595,602** | 699,037 | **62,810** | 189,430 |
| The PRC (excluding Hong Kong) | **933,449** | 515,735 | **1,737,644** | 1,000,589 |
| | **2,529,051** | 1,214,772 | **1,800,454** | 1,190,019 |

* Information about the Group's non-current assets, other than interest in an associate and a joint venture, and deferred tax assets, are presented based on the geographical location of the assets.

## 6. INCOME TAX EXPENSE

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong Profits tax | **2,395** | 4,311 |
| PRC Enterprise Income tax | **6,718** | 18,735 |
| Deferred tax | **(8,615)** | (8,379) |
| Total income tax expense | **498** | 14,667 |

For the year ended 31 December 2017, 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 is 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%.

## 7. (LOSS)/PROFIT BEFORE TAX

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit before tax has been arrived at after charging: | | |
| Staff costs, including directors' remuneration | | |
| – Salaries, wages and other benefits | **48,069** | 36,476 |
| – Contributions to retirement benefits schemes | **3,409** | 3,122 |
| Total staff costs | **51,478** | 39,598 |
| Depreciation of property, plant and equipment | **40,837** | 20,184 |
| Amortisation of intangible assets | **37,139** | 36,188 |
| Amortisation of prepaid lease payments | **864** | 616 |
| Credit loss expenses/impairment loss recognised in respect of financial assets carried at amortised costs | **7,294** | 3,260 |
| Impairment loss recognised on intangible assets | **23,883** | – |
| Impairment loss recognised in respect of goodwill | **63,904** | – |
| Equity-settled shared-based payment expenses | **17,202** | – |
| Auditors' remuneration | | |
| – audit service | **1,080** | 1,160 |
| – non-audit service | **150** | 120 |
| Minimum lease payments under operating lease in respect of rented premises | **23,720** | 9,797 |
| Cost of inventories recognised as expense | **1,967,537** | 783,427 |

## 8. (LOSS)/EARNINGS PER SHARE

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss)/profit for the year attributable to owners of the Company and (loss)/profit for the purpose of basic and diluted (loss)/earnings per share | **(84,425)** | 40,905 |

| | **2018** | 2017 |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share | **9,523,608** | 9,528,844 |
| Effect of dilutive potential ordinary shares: Share options | **–** | 7,196 |
| Weighted average number of ordinary shares for the purpose of diluted (loss)/earnings per share | **9,523,608** | 9,536,040 |

The computation of diluted loss per share for the year ended 31 December 2018 does not assume the exercise of share options since it would result in an anti-dilutive effect on loss per share.

The computation of diluted earnings per share for the year ended 31 December 2017 did not assume the exercise of certain share options since the exercise prices are higher than the average market share price.

## 9. DIVIDENDS

No dividend was proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: 0.38 HK cent per ordinary share).

During the year ended 31 December 2018, final dividend in respect of the previous financial year of 0.38 HK cent per ordinary share, in an aggregate amount of approximately HK$36,184,000, was approved and paid.

## 10. ACCOUNTS RECEIVABLE

| | **31 December 2018** | 31 December 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Accounts receivable | **272,130** | 728,858 |
| Less: Allowance for credit losses | **(42,705)** | (3,504) |
| | **229,425** | 725,354 |

The Group allows an average credit period of 90 days (2017: 90 days) to its trade customers. The following is an ageing analysis of accounts receivable net of accumulated allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

| | **31 December 2018** *HK$'000* | 31 December 2017 *HK$'000* |
|---|---|---|
| Within 30 days | **64,869** | 286,613 |
| 31 to 60 days | **38,560** | 203,718 |
| 61 to 90 days | **34,066** | 161,306 |
| 91 to 180 days | **16,611** | 56,573 |
| Over 180 days | **75,319** | 17,144 |
| | **229,425** | 725,354 |

## 11. ACCOUNTS PAYABLE

The following is an ageing analysis of accounts payable presented based on the invoice date at the end of the reporting period:

| | **31 December 2018** *HK$'000* | 31 December 2017 *HK$'000* |
|---|---|---|
| Within 30 days | **54,717** | 258,720 |
| 31 to 60 days | **27,300** | 141,832 |
| 61 to 90 days | **6,452** | 135,547 |
| Over 90 days | **42,153** | 1,670 |
| | **130,622** | 537,769 |

The average credit period on purchases of goods is 90 days (As at 31 December 2017: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

## EXTRACT FROM INDEPENDENT AUDITORS' REPORT

The following is an extract of the independent auditors' report on the Group's audited financial statements for the year ended 31 December 2018:

**"Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Emphasis of Matters**

We draw attention to Note 3 in the financial statements, which indicates that the Group incurred a net loss of approximately HK$126,995,000 during the year ended 31 December 2018 and, as of that date, the Company's current liabilities exceeded its current assets by approximately HK$443,746,000. As stated in Note 3, these events or conditions, along with other matters as set forth in Note 3, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter."

## MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW AND ANALYSIS

During the year ended 31 December 2018, the Group's operations mainly comprise sales of telecommunication products and services and operation of Internet finance platform business.

**Sale of Telecommunications Products and Services**

During the year under review, the revenue of sale of telecommunication products and services business was approximately HK$2,460.3 million (2017: HK$1,097.9 million). Sale of telecommunication products and services represented trading of telecommunication products, provision of Internet data center ("**IDC**"), WIFI, system integration and value-added Internet services and software development in the PRC and Hong Kong. The increase in turnover was mainly due to the revenue growth in the trading of telecommunication products business resulting from the diversification of products by selling mobile phones of different brand names.

As at 31 December 2018, the Group had two IDCs under operation in Guangzhou, namely Guangzhou Lotus Hill Data Center and Guangzhou (Nanxiang) Cloud Data Center. There are two IDCs under development, one in Heshan City and the other in Shenzhen. It is expected that these two IDCs will commence operation in 2020. For the year ended 31 December 2018, the provision of IDC service business had contributed revenue of approximately HK$353.6 million (2017: HK$217.1 million) to the Group.

Despite the improvement in revenue contribution during the year ended 31 December 2018, revenue from the trading of telecommunication products business for the fourth quarter of 2018 has significantly decreased compared with the first three quarters of the year. Such decrease was mainly attributable to the downturn and keen competition of the global mobile business environment that led to reduced orders from customers. It is considered that the lack of further innovation in the current generation of mobile phone negatively influence consumers' motivation to change their mobile phones. Thus, such decreasing trend is expected to carry forward to 2019. As a result, the financial performance of Million Ace and its subsidiaries (collectively referred to as "**Million Ace Group**") for the coming years is adversely impacted. Based on the updated business valuation of Million Ace Group, the Group has recognized an impairment loss of approximately HK$50 million on goodwill arose on the acquisition of Million Ace Group for the year ended 31 December 2018.

The recoverable amount of Million Ace Group's cash generating unit is determined based on value-in-use calculation. Such calculation is based on: 1) the profit forecast prepared by Million Ace Group covering a five-year period, and 2) a discount rate of 17.96% (2017: 17.83%) per annum which reflects current market assessments of time value of money and the credit risk specific to the cash generating unit.

Given the aforesaid factors and the results of the annual review of the existing business by Million Ace Group's management, figures, particularly revenue, adopted in the five-year forecast of Million Ace Group have been revised. The 2019 forecasted revenue of the five-year profit forecast adopted for the year ended 31 December 2018 has decreased by approximately 54.4% compared with that adopted for the year ended 31 December 2017 while the compound average growth rate remained at similar level.

Other than the aforesaid revision, key assumptions and valuation method have substantially remained the same for the value-in-use calculation as at 31 December 2017 and 31 December 2018.

As at 31 December 2018, the Group had provided a lifetime expected credit loss allowance to an amount included in other receivables of approximately HK$42.6 million since the recoverability of such receivable became uncertain. The Group has engaged lawyers to take necessary actions against the debtor and the guarantors to recover the amount. The Company will update its shareholders on any material development as and when appropriate.

**INTERNET FINANCE PLATFORM BUSINESS**

During the year under review, the revenue of Internet finance platform business contributed by 廣東阿凡達財富投資管理有限公司(Guangdong Avatar Wealth Investment Management Company Limited*) ("**Avatar Wealth**") 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 Co. Ltd.*) ("**Bees Financial**") was approximately HK$43.9 million (2017: HK$108.3 million) representing the service or commission income through the operations of those platforms.

In view of the recent fluctuation of the Internet lending environment in mainland China which resulted in investors' lack of confidence, borrowers' failure to repay debts and stringent regulations, operations of the Group's Internet finance platforms (the "**Platform(s)**") have been negatively affected. Our business volume has substantially decreased since the second quarter of 2018. In order to ensure that interests of the Group and the investors of the Platform are not compromised, in July 2018, the Group engaged lawyers to provide services to the Group in relation to the operations of the Platform, particularly conducting due diligence review of the operations, identifying defaulted loans and receivables (including the impaired accounts receivable as mentioned below) and taking necessary actions to recover the same, and assisting the Group to: 1) comply with the laws and regulations that are applicable to the Internet finance platform business, and 2) carry out rectification work on the operations of the Platform in accordance with the rectification notice that the local financial regulatory department issued to the Group in January 2018 and complete the relevant filings.

Based on the results of the due diligence review conducted by the lawyers, the management considered that the recoverability of the accounts receivable of Internet finance platform business became uncertain. Therefore, lifetime expected credit loss allowance of approximately HK$36.2 million was recognised in respect of those receivables. As the lawyers have commenced the procedures of recovering the aforesaid accounts receivable, the Company will update its shareholders on any material development as and when appropriate.

As of the date of this report, Bees Financial has carried out rectification work on the Platform and submitted the relevant filings to the local financial regulatory department and is pending the reply therefrom.

On the other hand, Avatar Wealth is still in the process of carrying out rectification work on the Platform in accordance with the relevant regulations. However, due to its smaller scale of operations and therefore limited resources compared with those of Bees Financial, its management is still assessing whether Avatar Wealth is able to comply with the relevant regulations and the possibility to complete the relevant filings therefore remains uncertain. As such, it is uncertain that this cash generating unit will generate cash flow in the future. The Directors have decided to fully write off the goodwill of approximately HK$13.9 million arose from the acquisition of Avatar Wealth and the relevant intangible assets of approximately HK$14.4 million in accordance with the relevant financial reporting requirements.

## BUSINESS PROSPECTS

Looking forward, the Group will continue to expand its IDC business. While the construction of the IDC in Heshan City is slightly behind schedule, it is expected to be put in service in 2020. We expect more revenue will be contributed from this IDC which is the Group's focus in the coming years. Moreover, 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.

## FINANCIAL HIGHLIGHTS

| | **2018** | 2017 |
|---|---|---|
| Turnover *(HK$'000)* | **2,529,051** | 1,214,772 |
| Net (loss)/profit *(HK$'000)* | **(126,995)** | 53,060 |
| (Loss)/profit attributable to owners of the Company *(HK$'000)* | **(84,425)** | 40,905 |
| Basic (loss) earnings per share *(HK Cents)* | **(0.89)** | 0.43 |

For the year under review, the Group recorded a turnover of approximately HK$2,529.1 million (2017: HK$1,214.8 million), representing an increase of approximately HK$1,314.3 million or 108.2% as compared to the year ended 31 December 2017. The increase in turnover was mainly due to the diversification of products by selling mobile phones of different brand names. The Group recorded a loss attributable to owners of the Company of approximately HK$84.4 million for the year ended 31 December 2018 compared to a profit attributable to owners of the Company of approximately HK$40.9 million for the year ended 31 December 2017, primarily due to (i) the impairment losses of goodwill and intangible assets of approximately HK$13.9 million and HK$14.4 million respectively in relation to Avatar Wealth and its Internet finance platform business; (ii) impairment loss of goodwill of approximately HK$50 million in relation to Million Ace Group and its sales of telecommunication products business; and (iii) provision of lifetime expected credit loss allowance to accounts receivable of approximately HK$36.2 million and HK$42.6 million in relation to the Internet finance platform business and sales of telecommunication products and services business respectively.

## FINANCIAL POSITION

As at 31 December 2018, the Group had interest-bearing bank borrowings of approximately HK$682.3 million (2017: HK$119.8 million), which are analyzed as follows:

| | **2018**<br>***HK$'000*** | 2017<br>*HK$'000* |
|---|---|---|
| Short-term bank borrowings, secured | **375,870** | 119,800 |
| Portion of term loan from bank, secured | | |
| – repayable within one year | **24,978** | – |
| – repayable after one year which contain a repayment on demand clause | **281,413** | – |
| Total borrowings | **682,261** | 119,800 |

The amounts based on the scheduled repayment dates set out in the loan agreements and the maturities of the Group's bank borrowings at the respective balance sheet dates (i.e. ignoring the effect of any repayment on demand clause) are shown below:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amounts of bank borrowings that are repayable: | | |
| – within 1 year | **400,848** | 119,800 |
| – between 1 and 2 years | **31,573** | – |
| – between 2 and 5 years | **95,961** | – |
| – beyond 5 years | **153,879** | – |
| Total borrowings | **682,261** | 119,800 |

The interest-bearing bank borrowings are denominated in Renminbi and at floating rates.

As at 31 December 2018, the Group had current assets of approximately HK$495.2 million (2017: HK$1,315 million), including cash and cash equivalents of approximately HK$36.7 million (2017: HK$164.4 million), accounts receivable, prepayments, deposits and other receivables, note receivable and other financial assets of approximately HK$453.4 million (2017: HK$1,142.4 million); and current liabilities of approximately HK$939 million (2017: HK$792.9 million). The Group's current ratio had been decreased from approximately 1.7 times as at 31 December 2017 to approximately 0.5 times as at 31 December 2018.

The Group had total assets of approximately HK$2,318.2 million (2017: HK$2,505.5 million) and total liabilities of approximately HK$992.6 million (2017: HK$858.7 million), representing a gearing ratio (expressed as total liabilities to total assets) of approximately 42.8% as at 31 December 2018 (2017: 34.3%).

The Group has always pursued a prudent treasury management policy and actively manages its liquidity position with sufficient standby banking facilities to cope with daily operation and any demands for capital for future development. As at 31 December 2018, total available banking facilities of the Group amounted to approximately HK$1,389.6 million from China Construction Bank Corporation ("**CCB**"), which is mainly for the construction cost of the "Bluesea Intelligence Valley" located in Heshan City. The aforesaid banking facilities will expire in 2028 and the unutilised amount was approximately HK$1,169.8 million. Due to the repayment on demand clause of the aforesaid banking facilities, which is a general term of banking facilities granted by CCB, the long-term bank loans of approximately HK$219.8 million drawn from the aforesaid banking facilities are classified as current liabilities in the statement of financial position as at 31 December 2018.

Besides, bank loans with carrying amount of approximately HK$223.2 million as at 31 December 2018 that is repayable within one year after the end of the reporting period, will be refinanced with CCB upon maturity under the aforesaid CCB's banking facilities.

The Group's turnover for the year ended 31 December 2018 amounted to approximately HK$2,529.1 million (2017: HK$1,214.8 million).

## FOREIGN EXCHANGE EXPOSURE AND TREASURY POLICIES

Most of the Group's cash balances and transactions are either denominated in Renminbi, United States dollars and Hong Kong dollars. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. The Directors considered that no hedging of exchange risk is required and accordingly, there were no financial instruments being used for hedging purposes during the year ended 31 December 2018. Nevertheless, the management will continue to monitor the Group's foreign exchange exposure and will take prudent measures as and when appropriate.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had approximately 378 staff (2017: 390). The total remuneration, including that of the Directors, for the year under review is approximately HK$68.7 million (2017: HK$39.6 million), which includes share-based payments of approximately HK$17.2 million (2017: Nil). The Group remunerates its employees based on their performances, experience and the prevailing industry practice. Employee remuneration, excluding Directors' emoluments, is reviewed annually. In addition to the basic salaries, employees are also entitled to benefits including bonus and mandatory provident fund. On 19 December 2012, the Company had adopted a share option scheme under which full time employees, including Directors, of the Company and its subsidiaries, might be granted options to subscribe for the Company's ordinary shares.

## DIVIDEND

No dividend was proposed during the year ended 31 December 2018, nor has any dividend been proposed since the end of the reporting period (2017: 0.38 HK cent per ordinary share).

During the year ended 31 December 2018, final dividend in respect of the previous financial year of 0.38 HK cent per ordinary share, in an aggregate amount of HK$36,184,000, was approved and paid.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 15 to the GEM Listing Rules. The principles adopted by the Company emphasis a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the year ended 31 December 2018, with the exception for the following deviations:

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. 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.

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, 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 had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also 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 Directors during the year ended 31 December 2018.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the year ended 31 December 2018, the Company had repurchased a total of 6,660,000 shares of HK$0.10 each on the Stock Exchange at an aggregate consideration of approximately HK$1,271,000. All of the repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Details of the repurchases are as follows:

| **Month/Year** | **Number of shares repurchased** | **Highest price paid per share** *HK$* | **Lowest price paid per share** *HK$* | **Aggregate consideration** *HK$'000* |
|---|---|---|---|---|
| February 2018 | 6,660,000 | 0.198 | 0.179 | 1,271 |

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

## AUDIT COMMITTEE

The Company's Audit Committee has reviewed the accounting policies and practices adopted by the Group and the audited consolidated financial statements for the year ended 31 December 2018.

## SCOPE OF WORK OF HLB HODGSON IMPEY CHENG LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Group's auditors, HLB Hodgson Impey Cheng Limited, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by HLB Hodgson Impey Cheng Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by HLB Hodgson Impey Cheng Limited on this announcement.

## CLOSURE OF REGISTER OF MEMBERS

For determining the identity of the shareholders to attend and vote at the forthcoming annual general meeting of the Company to be held on Tuesday, 7 May 2019 ("**AGM**"), the register of members of the Company will be closed from Tuesday, 30 April 2019 to Tuesday, 7 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 29 April 2019.

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

Hong Kong, 21 March 2019

*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.*