



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

2022

THIRD
QUARTERLY
REPORT



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*This report, for which the directors (the “**Directors**”) of Neo Telemedia Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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 2022 together with comparative unaudited figures for the corresponding periods of 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	For the nine months ended 30 September		For the three months ended 30 September	
		2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue	3	392,272	452,823	131,951	187,919
Cost of sales		(352,135)	(364,928)	(127,905)	(166,407)
Gross profit		40,137	87,895	4,046	21,512
Other income and gains		69,589	1,697	59,710	1,073
Gain on disposal of a subsidiary		203,668	–	(3,598)	–
Selling and marketing costs		(23,750)	(22,912)	(7,237)	(9,791)
Administrative and other expenses		(98,317)	(100,820)	(29,601)	(33,744)
Net change in impairment losses under expected credit loss model		(2,963)	(929)	(184)	–
Finance costs		(75,937)	(29,566)	(26,689)	(10,761)
Profit/(loss) before tax		112,427	(64,635)	(3,553)	(31,711)
Income tax	4	(32,195)	5,056	(20,094)	1,400
Profit/(loss) for the period		80,232	(59,579)	(23,647)	(30,311)
Profit/(loss) for the period attributable to:					
Owners of the Company		23,036	(53,744)	(16,943)	(28,502)
Non-controlling interests		57,196	(5,835)	(6,704)	(1,809)
		80,232	(59,579)	(23,647)	(30,311)
		HK cents	HK cents	HK cents	HK cents
Earnings/(loss) per share	6				
– basic		0.24	(0.56)	(0.18)	(0.30)
– diluted		0.24	(0.56)	(0.18)	(0.30)

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	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Profit/(loss) for the period	80,232	(59,579)	(23,647)	(30,311)
Other comprehensive (expenses)/income, net of income tax				
Items that may be subsequently reclassified to profit or loss:				
Exchange differences arising on translation of foreign operations	(116,846)	8,706	(68,594)	673
Reclassification adjustment relating to disposal of foreign operations during the period	14,242	–	9,573	–
Other comprehensive (expenses)/income for the period, net of tax	(102,604)	8,706	(59,021)	673
Total comprehensive expenses for the period	(22,372)	(50,873)	(82,668)	(29,638)
Total comprehensive expenses for the period attributable to:				
Owners of the Company	(61,523)	(45,383)	(64,307)	(27,860)
Non-controlling interests	39,151	(5,490)	(18,361)	(1,778)
	(22,372)	(50,873)	(82,668)	(29,638)

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 the provision of data centre 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\$**”) and all amounts are rounded to the nearest thousand (“**HK\$’000**”) unless otherwise stated.

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 2021, 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 2022 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 the provision of data centre services during the nine and three months ended 30 September 2022. An analysis of revenue is as follows:

	For the nine months ended 30 September		For the three months ended 30 September	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Provision of data centre services	385,580	443,718	130,567	185,629
Others (Note)	6,692	9,105	1,384	2,290
	392,272	452,823	131,951	187,919

Note: Others mainly represent income arising from the trading of telecommunication products, the provision of system integration services and leasing of properties.

4. INCOME TAX

Under the two-tiered profits tax rate regime of Hong Kong Profits Tax, 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%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK\$2,000,000 of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2,000,000.

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%.

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 2022 (2021: Nil).

6. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) 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	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Earnings/(loss) attributable to owners of the Company	23,036	(53,744)	(16,943)	(28,502)

	For the nine months ended 30 September		For the three months ended 30 September	
	2022 (Unaudited)	2021 (Unaudited)	2022 (Unaudited)	2021 (Unaudited)
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) 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

No diluted earnings/(loss) per share for the nine months and three months ended 30 September 2022 and 2021 was presented as there were no potential ordinary shares in issue for the periods.

7. SHARE CAPITAL AND RESERVES

	Attributable to owners of the Company								Total HK\$'000
	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	
At 1 January 2021 (audited)	952,218	1,759,494	15,863	(2,340)	1,893	(1,688,667)	1,038,461	62,561	1,101,022
Loss for the period	-	-	-	-	-	(53,744)	(53,744)	(5,835)	(59,579)
Other comprehensive income									
Exchange difference on translation of foreign operations	-	-	-	8,361	-	-	8,361	345	8,706
Total comprehensive expenses for the period	-	-	-	8,361	-	(53,744)	(45,383)	(5,490)	(50,873)
Share options lapsed	-	-	(15,863)	-	-	15,863	-	-	-
At 30 September 2021 (unaudited)	952,218	1,759,494	-	6,021	1,893	(1,726,548)	993,078	57,071	1,050,149
At 1 January 2022 (audited)	952,218	1,759,494	-	25,421	1,893	(1,735,471)	1,003,555	54,733	1,058,288
Profit for the period	-	-	-	-	-	23,036	23,036	57,196	80,232
Other comprehensive expenses									
Exchange difference on translation of foreign operations	-	-	-	(98,801)	-	-	(98,801)	(18,045)	(116,846)
Reclassification of cumulative translation reserve upon disposal of foreign operations during the period	-	-	-	14,242	-	-	14,242	-	14,242
Total comprehensive expenses for the period	-	-	-	(84,559)	-	23,036	(61,523)	39,151	(22,372)
Disposal of a subsidiary	-	-	-	-	-	-	-	35,955	35,955
At 30 September 2022 (unaudited)	952,218	1,759,494	-	(59,138)	1,893	(1,712,435)	942,032	129,839	1,071,871

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 30 September 2022 (the “**Period**”), the Group recorded a revenue of approximately HK\$392.3 million (2021: HK\$452.8 million), representing a decrease of approximately HK\$60.5 million or 13.4% as compared to the same period in last year. The decrease in revenue was mainly due to (i) the negative impact of the ongoing COVID-19 pandemic on the business environment which led to a decrease in the average rate per server cabinet charged to the Group’s customers and the utilisation rate of the Group’s self-developed data centres, and (ii) the decrease in revenue from the provision of system integration services.

The Group recorded a profit attributable to owners of the Company of approximately HK\$23 million for the nine months ended 30 September 2022 as compared to a loss attributable to the owners of the Company for the nine months ended 30 September 2021 of approximately HK\$53.7 million, mainly due to the net effect of (i) the gain of approximately HK\$203.7 million on the disposal of the entire equity interest in an indirect non-wholly owned subsidiary of the Company completed during the Period (2021: Nil), (ii) the gain of approximately HK\$55.5 million (2021: Nil) arising from sale and lease transactions completed during the Period, (iii) the increase in depreciation of approximately HK\$14.1 million and finance cost of approximately HK\$46.4 million during the Period as a result of certain sale and lease arrangements completed in the fourth quarter of 2021 and in the third quarter of 2022, and (iv) the decrease in the average rate per server cabinet charged to the Group’s customers and the utilisation rate of the Group’s self-developed data centres due to the negative impact of the ongoing COVID-19 pandemic on the business environment.

Other Financial Information

	For the nine months ended 30 September	
	2022 HK\$’000 (Unaudited)	2021 HK\$’000 (Unaudited)
EBITDA (a)	283,407	51,783
EBITDA margin (b)	72.3%	11.44%

Note:

- (a) EBITDA is defined as profit or loss for the period excluding net interest income or expense, income tax expense or credit, depreciation and amortisation.
- (b) EBITDA margin is calculated by dividing EBITDA by revenue.

Business Review

Provision of Data Centre Services

The Group provides data centre services to its customers in mainland China through self-developed data centres and server cabinets leased from third parties.

A summary of the Group's self-developed data centres by data centre as of 30 September 2022 is set out below.

Name of data centre	Number of server cabinets			Server cabinets % of total
	Available for service	Under construction (Note 1)	Total	
Guangzhou Lotus Hill Data Centre	1,499	–	1,499	4.6
Guangzhou (Nanxiang) Cloud Data Centre	2,871	–	2,871	8.8
Bluesea Intelligence Valley Mega Data Centre (Note 2)	8,112	18,900	27,012	82.8
Shanghai Baoshan Data Centre	310	942	1,252	3.8
Total	12,792	19,842	32,634	100

Notes:

- (1) This is an estimate and is subject to change upon completion of the construction.
- (2) 3,912 and 4,200 server cabinets, respectively, included herein are under sale and leaseback arrangements entered into with an independent third party during the year ended 31 December 2021 and the period ended 30 September 2022, respectively.

Save for the above, the Group also operated an aggregate of approximately 779 server cabinets that were leased from third parties.

The Group's profitability is largely determined by the utilisation of its self-developed data centres. As of 30 September 2022, the utilisation rate of the Group's self-developed data centres was approximately 28% (2021: 50.5%). The decrease was mainly because construction of 4,200 new server cabinets was completed during the third quarter of 2022. Thus, these new server cabinets became available for service ahead of schedule.

During the Period, revenue from the provision of data centre services was approximately HK\$385.6 million (2021: HK\$443.7 million), representing a decrease of approximately HK\$58.1 million or 13.1% as compared to the same period in last year. The decrease was mainly due to the negative impact of the ongoing COVID-19 pandemic on the business environment which led to a decrease in the average rate per server cabinet charged to the Group's customers and the utilisation rate of the Group's self-developed data centres.

	For the nine months ended 30 September	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Self-developed data centres	313,243	362,708
Server cabinets leased from third parties	72,337	81,010
	385,580	443,718

With the increasing number of server cabinets in the Group's self-developed data centres, the Group has gradually relocated servers of certain customers from leased server cabinets to its self-developed data centres in the same region in order to increase profitability. As the server cabinets available for service are not fully utilised and the construction of approximately 20,000 server cabinets is expected to complete in the next two years, subject to the ongoing negative economic impact of COVID-19, if any, financial performance of the Group is expected to improve substantially.

Others

Others mainly consist of the trading of telecommunication products, provision of system integration services and leasing of properties. The revenue, results and assets of which are individually immaterial to the Group.

During the Period, revenue from others was approximately HK\$6.7 million (2021: HK\$9.1 million), representing a decrease of approximately HK\$2.4 million or 26.4% as compared to the same period in last year which was mainly due to decrease in provision of system integration services income.

Disposal of the Entire Interest in a Subsidiary

On 10 March 2022, (i) Shenzhen Pengyu Data Technology Co., Ltd* (深圳鵬裕數據科技有限公司) (the “**Purchaser**”); (ii) GDS (Shanghai) Investment Co., Ltd.* (萬數(上海)投資有限公司) (“**GDS (Shanghai)**”); (iii) EDSUZ (HK) Limited (“**EDSUZ**”); (iv) Guangzhou Zituo Technology Company Limited (“**Guangzhou Zituo**”), an indirect non-wholly-owned subsidiary of the Company; (v) Guangdong Bluesea Mobile Development Company Limited (“**Bluesea Mobile**”), an indirect wholly-owned subsidiary of the Company; (vi) Mr. Wang Kun (the legal representative, a director and a substantial shareholder of Guangzhou Zituo); and (vii) Shenzhen Zituo Yunqi Technology Company Limited* (深圳市資拓雲啟科技有限公司) (“**Shenzhen Zituo**”), an indirect non-wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the “**Sale and Purchase Agreement**”) pursuant to which Guangzhou Zituo conditionally agreed to sell and the Purchaser conditionally agreed to purchase the entire equity interest in Shenzhen Zituo at a total consideration of approximately RMB475.5 million (equivalent to approximately HK\$582.2 million) (subject to adjustment) (the “**Disposal**”). Bluesea Mobile and Mr. Wang agreed to provide warranties and undertakings in relation to Shenzhen Zituo under the Sale and Purchase Agreement and EDSUZ and GDS (Shanghai) agreed to guarantee the payment obligations of the Purchaser under the Sale and Purchase Agreement.

The Directors are of the view that the Disposal provides the Group with an opportunity to realise a capital gain of considerable size to provide immediate cash for the Group’s business development, particularly the remaining portion of Bluesea Intelligence Valley Mega Data Centre.

During the Period, the Disposal completed and contributed a gain of approximately HK\$203.7 million to the Group.

* For identification purpose only

Sale and Lease Transactions

On 20 June 2022, Guangdong Bluesea Data Development Company Limited* (廣東蔚海數據發展有限公司) (“**Bluesea Data**”), an indirect wholly owned subsidiary of the Company, and KDCR Guangdong Co., Ltd* (吉寶數據(廣東)有限公司) (“**KDCR**”) entered into sale and lease agreements pursuant to which (i) KDCR would purchase from Bluesea Data premises located at the Group’s Bluesea Intelligence Valley in Heshan, Guangdong Province and the facilities and equipment that are built and installed therein (collectively, the “**Subject Assets**”) in an aggregate consideration of RMB1,520 million (equivalent to approximately HK\$1,767.8 million) (inclusive of VAT); and (ii) KDCR agreed to lease the Subject Assets to Bluesea Data for its operation at an initial monthly payment of RMB10.5 million (equivalent to approximately HK\$12.2 million) (inclusive of VAT and subject to adjustment). For details of the above transactions, please refer to the Company’s announcement dated 23 June 2022.

For details of the above transactions, please refer to the Company’s announcement dated 23 June 2022 and the Company’s circular dated 18 July 2022.

The above sale and lease transactions have been approved by the shareholders of the Company at an extraordinary general meeting held on 2 August 2022 and one of these sale and lease transactions completed and contributed a gain of disposal of approximately HK\$55.5 million to the Group during the Period.

Business Prospects

Year 2022 started with some significant events that may impact the Chinese economy, such as the resurgence of domestic COVID-19 cases and geopolitical tension that would inflate energy prices. Growth of the Chinese economy is expected to slow down in 2022 and the Group is expecting tremendous challenges to its business, particularly in the fourth quarter of 2022.

Nevertheless, the outlook of the Group remains positive. With the rapid growth in data traffic, accelerating trend of digitisation and PRC government policies that support the growth of digital economy, the demand for high quality data centres will continuously increase at least over the next five years.

* For identification purpose only

We have seen that the operations of two new data centres namely Bluesea Intelligence Valley Mega Data Centre in Heshan, Jiangmen, Guangdong province and Shanghai Baoshan Data Centre, have commenced since 2021. In particular, Bluesea Intelligence Valley Mega Data Centre will provide over 20,000 server cabinets with excellent infrastructures upon completion of its construction. The launch of these data centres will increase the capacity of the Group in terms of number of self-developed server cabinets by approximately 2 times (compared to the number of the Group's server cabinets available for service as at 30 September 2022) which will provide our customers ample room for growth.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 September 2022, 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 5.67 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	Approximate percentage of shareholding
Dr. LIE Haiquan	Beneficial owner	2,283,400,000	23.98%
	Interest in controlled corporations (Note 1)	2,091,923,357	21.97%

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.

Save as disclosed above, the Directors did not have any interests or short positions in the securities of the Company as at 30 September 2022.

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 as the share option scheme adopted on 22 July 2002 expired on 21 July 2012. The purpose of the share option scheme 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 scheme 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.

During the nine months ended 30 September 2022, no share option was granted, exercised or cancelled and there was no outstanding share option as at 30 September 2022.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far is known to the Directors, as at 30 September 2022, 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 1)	Beneficial owner	2,055,887,357	21.59%
Mr. YAN Wai Ping	Beneficial owner	504,832,000	5.30%
	Interest of spouse (Note 2)	106,702,000	1.12%

Note:

- (1) Winner Mind is wholly-owned by Dr. LIÉ Haiquan.
- (2) Mr. Yan is interested in 106,702,000 shares held by his spouse, Ms. WONG Pui Yan.

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 2022.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the nine months ended 30 September 2022.

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 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 nine months ended 30 September 2022 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, 10 November 2022

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 Listed Company Information” page of the Stock Exchange’s website at www.hkexnews.hk for at least seven days from the date of its posting and on the website of the Company at www.neo-telemedia.com.