



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

INTERIM REPORT

2016

* *for identification purpose only*

Characteristics of GEM

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

BUSINESS AND FINANCIAL HIGHLIGHTS FOR THE THREE-MONTH PERIOD AND SIX-MONTH PERIOD

- In the absence of any major projects and with weaker operating performance of TSTSH and TSTJX, the Group registered revenue of HK\$125,921,000 for the Six-Month Period, representing a decline of 17.02% as compared to the same period of last year
- Due to the weaker operating performance of TSTSH and TSTJX, gross profit margin for the Group lowered from 23.28% to 19.03% for the Six-Month Period while net loss of the Group widened from HK\$13,514,000 to HK\$19,560,000
- The Group commenced the initial stages of the surveillance project and data network infrastructure project that it secured from a gaming operator during November 2015 and April 2016 respectively, with focus on the initial stages such as fine-tuning of design, confirmation of equipment deployed and materials submission
- Subsequent to the decision of the Government of Timor-Leste not to increase its equity stake in TTSA during the Three-Month Period, to the best knowledge of the Group, a local Timorese businessman has approached and commenced negotiations with Oi to acquire its equity interests in TTSA
- Proceeds from the disposal of Vodacabo of HK\$1,218,000 received during early July 2016
- Restricted cash, cash and cash equivalents and yield-enhanced financial instruments as at 30th June 2016 totalled approximately HK\$135,592,000 or 37.40% of total assets
- The Directors do not recommend payment of an interim dividend for the Six-Month Period

INTERIM RESULTS

The Board is pleased to present the unaudited consolidated results of the Group for the Three-Month Period and Six-Month Period as follows:

Interim condensed consolidated income statement

	Note	Unaudited			
		Three-Month	Three months	Six-Month	Six months
		Period	ended	Period	ended
		30th June		30th June	
		2015		2015	
		HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000
Revenue	7	64,099	66,712	125,921	151,755
Cost of sales		(52,777)	(44,873)	(101,952)	(116,433)
Gross profit		11,322	21,839	23,969	35,322
Other gains		211	122	447	694
Selling, marketing costs and administrative expenses		(22,938)	(24,807)	(44,857)	(51,034)
Operating loss	8	(11,405)	(2,846)	(20,441)	(15,018)
Finance income		744	1,007	1,511	2,019
Finance costs		(5)	(106)	(5)	(171)
Share of loss of associates		—	(92)	—	(344)
Loss before income tax		(10,666)	(2,037)	(18,935)	(13,514)
Income tax expense	9	(563)	—	(625)	—
Loss for the period		(11,229)	(2,037)	(19,560)	(13,514)
Loss attributable to:					
– Owners of the Company		(9,911)	(2,267)	(17,288)	(13,152)
– Non-controlling interests		(1,318)	230	(2,272)	(362)
		(11,229)	(2,037)	(19,560)	(13,514)
Loss per Share					
attributable to owners					
of the Company					
(expressed in HK cents per Share)					
Basic and diluted loss per Share	14	(1.61)	(0.37)	(2.82)	(2.14)

The notes on pages 8 to 15 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of comprehensive income

	<u>Unaudited</u>	
	Six-Month Period HK\$' 000	Six months ended 30th June 2015 HK\$' 000
Loss for the period	<u>(19,560)</u>	<u>(13,514)</u>
Other comprehensive expense:		
<i><u>Items that may be reclassified to profit or loss</u></i>		
Change in value of available-for-sale financial assets, net of tax	(1,702)	(900)
Currency translation differences	<u>21</u>	<u>21</u>
Other comprehensive expense for the period, net of tax	<u>(1,681)</u>	<u>(879)</u>
Total comprehensive expense for the period	<u>(21,241)</u>	<u>(14,393)</u>
Total comprehensive expense for the period attributable to:		
– Owners of the Company	(18,969)	(14,031)
– Non-controlling interests	<u>(2,272)</u>	<u>(362)</u>
	<u>(21,241)</u>	<u>(14,393)</u>

The notes on pages 8 to 15 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated balance sheet

	Note	Unaudited 30th June 2016 HK\$' 000	Audited 31st December 2015 HK\$' 000
ASSETS			
Non-current assets			
PPE	11	2,264	2,405
Investment in an associate		804	804
Available-for-sale financial assets		<u>105,363</u>	<u>93,705</u>
Total non-current assets		<u>108,431</u>	<u>96,914</u>
Current assets			
Inventories		28,204	13,674
Current income tax receivable		427	427
Trade receivables	12	107,522	135,606
Other receivables, deposits and prepayments		27,124	24,546
Amount due from an associate		12	1,197
Available-for-sale financial assets		7,180	2,421
Cash and banks		57,444	77,495
Restricted cash		<u>26,173</u>	<u>26,047</u>
		254,086	281,413
Assets classified as held for sale		<u>—</u>	<u>1,008</u>
Total current assets		<u>254,086</u>	<u>282,421</u>
LIABILITIES			
Current liabilities			
Trade and bills payables	13	41,764	47,204
Other payables and accruals		63,781	55,047
Dividend payable		6,138	—
Current income tax liabilities		11,375	11,280
Bank overdrafts		<u>1,034</u>	<u>—</u>
Total current liabilities		<u>124,092</u>	<u>113,531</u>
Net current assets		<u>129,994</u>	<u>168,890</u>
Total assets less current liabilities		<u>238,425</u>	<u>265,804</u>

	Unaudited 30th June 2016 HK\$' 000	Audited 31st December 2015 HK\$' 000
Financed by:		
EQUITY		
Equity attributable to owners of the Company		
Share capital	61,382	61,382
Other reserves	182,987	184,668
(Accumulated losses)/retained profits		
– Proposed final dividend	—	6,138
– Others	(5,235)	12,053
	239,134	264,241
Non-controlling interests	(709)	1,563
Total equity	238,425	265,804

The notes on pages 8 to 15 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of changes in equity

	Unaudited					
	Attributable to owners of the Company					
	Share capital HK\$'000	Other reserves HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
Balance as at 1st January 2016	61,382	184,668	18,191	264,241	1,563	265,804
Total comprehensive income for the Six-Month Period	—	(1,681)	(17,288)	(18,969)	(2,272)	(21,241)
Total transactions with owners, recognised directly in equity						
Dividend relating to 2015	—	—	(6,138)	(6,138)	—	(6,138)
Total transactions with owners, recognised directly in equity	—	—	(6,138)	(6,138)	—	(6,138)
Balance as at 30th June 2016	<u>61,382</u>	<u>182,987</u>	<u>(5,235)</u>	<u>239,134</u>	<u>(709)</u>	<u>238,425</u>
Balance as at 1st January 2015	<u>61,382</u>	<u>198,153</u>	<u>17,076</u>	<u>276,611</u>	<u>2,447</u>	<u>279,058</u>
Total comprehensive income for the period ended 30th June 2015	—	(879)	(13,152)	(14,031)	(362)	(14,393)
Total transactions with owners, recognised directly in equity						
Dividend relating to 2014	—	—	(6,138)	(6,138)	—	(6,138)
Total transactions with owners, recognised directly in equity	—	—	(6,138)	(6,138)	—	(6,138)
Balance as at 30th June 2015	<u>61,382</u>	<u>197,274</u>	<u>(2,214)</u>	<u>256,442</u>	<u>2,085</u>	<u>258,527</u>

The notes on pages 8 to 15 form an integral part of this interim condensed consolidated financial information.

Interim condensed consolidated statement of cash flows

	<u>Unaudited</u>	
		For the six months ended 30th June 2015
	Six- Month Period HK\$' 000	HK\$' 000
Cash flows from operating activities		
Cash (used in)/generated from operations	(3,297)	9,357
Income tax paid	(295)	(35)
Cash flows from operating activities - net	<u>(3,592)</u>	<u>9,322</u>
Cash flows from investing activities		
Proceeds from sale of available-for-sale financial assets	10,704	31,602
Purchases of available-for-sale financial assets	(29,265)	(40,530)
Purchases of PPE	(316)	(169)
Interest received	1,511	2,019
Cash flows from investing activities - net	<u>(17,366)</u>	<u>(7,078)</u>
Cash flows from financing activities		
Proceeds from borrowing	—	5,992
Increase in restricted bank deposits	(127)	(976)
Cash flows from financing activities - net	<u>(127)</u>	<u>5,016</u>
Net (decrease)/increase in cash and cash equivalents	(21,085)	7,260
Cash and cash equivalents at the beginning of the period	<u>77,495</u>	<u>79,305</u>
Cash and cash equivalents at end of the period	<u>56,410</u>	<u>86,565</u>
Cash and cash equivalents comprised:		
Bank overdrafts	(1,034)	—
Cash and banks	57,444	86,565
Cash and cash equivalents	<u>56,410</u>	<u>86,565</u>

The notes on pages 8 to 15 form an integral part of this interim condensed consolidated financial information.

Notes to the condensed consolidated interim financial information

1 General information

This condensed consolidated interim financial information is presented in thousands of units of HK\$ (HK\$' 000), unless otherwise stated. This condensed consolidated interim financial information is approved for issue by the Board on 11th August 2016.

This condensed consolidated interim financial information was reviewed by the audit committee of the Company, not audited.

2 Basis of preparation

This condensed consolidated interim financial information for the Six-Month Period was prepared in accordance with HKAS 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2015, which were prepared in accordance with HKFRS.

3 Accounting policies

The accounting policies applied were consistent with those of the annual financial statements for the year ended 31st December 2015, as described in those annual financial statements.

Amendments to HKFRS effective for the financial year ending 31st December 2016 do not have a material impact on the Group.

Taxes on income in the interim periods were accrued using the tax rate that would be applicable to expected total annual earnings..

4 Estimates

The preparation of interim financial information required management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results might differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the accounting policies of the Group and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31st December 2015, with the exception of changes in estimates that were required in determining the provision for income taxes.

5 Financial risk management and financial instruments

(a) Fair value estimation

The table below analysed financial instruments carried at fair value, by valuation method. The different levels were defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level one).
- Inputs other than quoted prices included within level one that were observable for the asset or liability, either directly (that was, as prices) or indirectly (that was, derived from prices) (level two).
- Inputs for the asset or liability that were not based on observable market data (that was, unobservable inputs) (level three).

The following table presents the financial assets of the Group that were measured at fair value as at 30th June 2016.

	Level one HK\$' 000	Level three HK\$' 000	Total HK\$' 000
Assets			
Available-for-sale			
financial assets			
– Equity securities	4,532	54,578	59,110
– Debt investments	51,975	—	51,975
	<u>56,507</u>	<u>54,578</u>	<u>111,085</u>
Total assets	<u>56,507</u>	<u>54,578</u>	<u>111,085</u>

The following table presents the financial assets of the Group that were measured at fair value as at 31st December 2015.

	Level one HK\$' 000	Level three HK\$' 000	Total HK\$' 000
Assets			
Available-for-sale			
financial assets			
– Equity securities	7,169	54,578	61,747
– Debt investments	32,923	—	32,923
	<u>40,092</u>	<u>54,578</u>	<u>94,670</u>
Total assets	<u>40,092</u>	<u>54,578</u>	<u>94,670</u>

There were no transfers among levels one, two and three during the period.

There were no changes in valuation techniques during the period.

(b) Valuation processes of the Group

The fair value of equity securities available for sale was determined on an annual basis by an independent qualified valuer based on discounted cash flow. The Directors reviewed the valuation performed by the independent valuer for financial reporting purposes.

The following table gives information about fair value measurements of available-for-sale financial assets using significant unobservable inputs (level three):

Fair value as at 31st December 2015	Valuation technique	Unobservable inputs	
HK\$' 000			
54,578	Discounted cash flow	Weighted average cost of capital	19.85%
		Long-term revenue growth rate	5.00%
		Long-term pre-tax operating margin	5.00%
		Discount for lack of marketability	9.16%
		Control premium	17.50%

(c) Fair value of financial assets and liabilities measured at amortised cost

The fair value of the following financial assets and liabilities approximated their carrying amount:

- Trade and other receivables
- Other current financial assets
- Cash and banks
- Trade and other payables

6 Seasonality of operations

The business is not subject to seasonal fluctuations.

7 Segment information

The executive Directors were the chief operating decision-makers of the Group. Management determined the operating segments based on the information reviewed by the executive Directors for the purposes of allocating resources and assessing performance.

The executive Directors considered the business from both a product and geographic perspective. From a product perspective, management assessed the performance of the segment of design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services and the segment of CNMS. The first segment was further evaluated on a geographic basis (Mainland China, and Hong Kong and Macao).

The executive Directors assessed the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excluded the effects of non-recurring income and expenditure from the operating segments, such as loss on disposal of available-for-sale financial assets. Interest income and expenditure were not allocated to segments, as this type of activity was managed by the executive Directors, who managed the cash position of the Group.

Total segment assets excluded available-for-sale financial assets, which were managed on a central basis.

The revenue from external parties reported to the executive Directors was measured in a manner consistent with that in the interim condensed consolidated income statement.

The following table presents revenue and EBITDA information regarding the operating segments of the Group for the Six-Month Period.

	Design, sale and implementation of network systems infrastructure; customer data automation, customisation and integration; and provision of technical support services			
	<u>Mainland China</u>	<u>Hong Kong and Macao</u>	<u>CNMS</u>	<u>Total</u>
	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000
Six-Month Period				
Revenue from external customers	8,148	115,611	2,162	125,921
Adjusted EBITDA	(4,426)	(9,848)	(5,864)	(20,138)
As at 30th June 2016				
Total assets (exclude available-for-sale financial assets)	34,084	200,638	15,252	249,974

A reconciliation of total adjusted EBITDA to total loss before income tax is provided as follows:

	Six-Month Period
	HK\$' 000
Adjusted EBITDA	(20,138)
Depreciation	(416)
Finance income	1,511
Finance costs	(5)
Gain on disposal of Vodacabo	210
Loss on disposal of available-for-sale financial assets	(97)
	<hr/>
Loss before income tax	(18,935)
	<hr/> <hr/>

8 Operating loss

An analysis of the amounts presented as operating items in the financial information is given below.

	Six-Month Period HK\$' 000	Six months ended 30th June 2015 HK\$' 000
Cost of goods sold	(85,409)	(95,204)

9 Income tax expense

Hong Kong profits tax was provided at the rate of 16.5% (six months ended 30th June 2015: 16.5%) on the estimated assessable profit for the period. Taxation on non-Hong Kong profits was calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the regions in which the Group operated.

	Six-Month Period HK\$' 000	Six months ended 30th June 2015 HK\$' 000
Current income tax:		
– Macao complementary profits tax	59	—
Adjustments in respect of prior years	566	—
	<hr/> 625 <hr/>	<hr/> — <hr/>

10 Dividends

The Directors do not recommend payment of interim dividend for the Six-Month Period (six months ended 30th June 2015: nil).

11 PPE

During the Six-Month Period, the Group acquired PPE at a cost of HK\$316,000.

12 Trade receivables

Sales of the Group were on receipts in advance, letter of credit documents against payment and open terms credit. The credit terms granted to customers varied and were generally the result of negotiations between individual customers and the Group. As at 30th June 2016 and 31st December 2015, the ageing analysis of the trade receivables based on invoice date was as follows:

	As at 30th June 2016 HK\$' 000	As at 31st December 2015 HK\$' 000
Within three months	61,656	103,999
>Three months but ≤ six months	36,744	15,123
>Six months but ≤ twelve months	1,627	4,366
Over twelve months	22,091	27,242
	<hr/>	<hr/>
Gross trade receivables	122,118	150,730
	<hr/> <hr/>	<hr/> <hr/>

13 Trade and bills payables

As at 30th June 2016 and 31st December 2015, the ageing analysis of the trade and bills payables based on invoice date was as follows:

	As at 30th June 2016 HK\$' 000	As at 31st December 2015 HK\$' 000
Within three months	29,940	39,117
> Three months but ≤ six months	5,982	504
> Six months but ≤ twelve months	14	215
Over twelve months	5,828	7,368
	<hr/>	<hr/>
	41,764	47,204
	<hr/> <hr/>	<hr/> <hr/>

14 Loss per Share

(a) Basic

Basic loss per Share was calculated by dividing the loss attributable to owners of the Company by the weighted average number of Shares in issue during the Six-Month Period.

	Six-Month Period HK\$' 000	Six months ended 30th June 2015 HK\$' 000
Loss attributable to owners of the Company	<u>(17,288)</u>	<u>(13,152)</u>
Weighted average number of Shares in issue (thousands)	<u>613,819</u>	<u>613,819</u>

(b) Diluted

Diluted loss per Share was calculated by adjusting the weighted average number of Shares outstanding to assume conversion of all dilutive potential Shares. No diluted loss per Share for the Six-Month Period and the six months ended 30th June 2015 were presented as there were no outstanding options as at 30th June 2016 and 2015.

15 Related-party transactions

The following transactions were carried out with related parties:

(a) Sale of goods

	Six-Month Period HK\$' 000
Sale of goods:	
– An entity controlled by key management personnel	<u>149</u>

Goods were sold based on the price lists in force and terms that would be available to third parties. Goods were sold to an entity controlled by key management personnel on normal commercial terms and conditions. The entity controlled by key management personnel was a firm belonging to José Manuel dos Santos, an executive Director.

(b) Purchase of goods

**Six-Month
Period
HK\$' 000**

– An entity controlled by key management personnel 406

Goods were bought from an entity controlled by key management personnel on normal commercial terms and conditions. The entity controlled by key management personnel was a firm belonging to José Manuel dos Santos, an executive Director.

(c) Operating lease payments

**Six-Month
Period
HK\$' 000**

– An executive Director 681

Operating lease payments were paid to an executive Director, José Manuel dos Santos, on normal commercial terms and conditions.

(d) Key management compensation

Key management compensation amounted to HK\$3,897,000 for the Six-Month Period.

(e) Balances as at 30th June 2016

HK\$' 000

Receivable from a related party:

– An associate 12

Payables to related parties:

– Executive Directors 2,670

The receivable from a related party arose mainly from sale transactions. This balance was denominated in MOP, unsecured in nature, bore no interest and repayable on demand. No provisions were held against receivable from a related party.

The payables to related parties arose mainly from proportional accrual of additional thirteenth month salary and discretionary bonuses. The payables bore no interest.

BUSINESS REVIEW

Business in Macao, Hong Kong and Mainland China

In Macao, with gaming remains as a core economic pillar, business generated from different gaming operators continues to be one of the main revenue drivers for the Group. During the Six-Month Period, operating business environment of the Group continued to be challenging as different gaming operators remained cautious over their capital expenditure plans, brought by changing market conditions that included, but not limited to, introduction of smoking restrictions, initiatives introduced by the Government of PRC to curb corruption, tightened regulations over gaming promoters and limitations over duration of stay for mainland travelers.

Nevertheless, the policy direction of the Government of Macao to have gaming operators moved beyond gaming elements into non-gaming attractions and to encourage them to procure services from local small-medium enterprises yielded benefits to the Group. During the Six-Month Period, while the Group awaited the fully fledged rollout of installation and commissioning works of the surveillance project and data network infrastructure project at new premises in Cotai that it secured from a gaming operator during November 2015 and April 2016 respectively, the Group mobilised its human resources to take on service support works that different gaming operators contracted out to small-medium enterprises in support of the policy direction of the Government of Macao. Among the works secured included the engagement of talents of the Group in the area of surveillance by a gaming operator to assist with various relocations of surveillance equipment and in the installation of new gears in renovated areas, totalling approximately HK\$4,000,000.

During the Three-Month Period, the Group successfully completed the core switch replacement contract for a gaming operator, the contract of which involved the replacement of core switches and migration of over twenty applications that are currently running in a live environment. The Group believed that the successful completion of this data network migration project will well position the Group to understand further this gaming operator and to tap for business opportunities, in particular in the areas of data network infrastructure and information technology. The Government of Macao has continued to remain one of the core clients of the Group. During the Three-Month Period, over HK\$15,000,000 worth of contracts from different departments in the areas of servers, storage, security, surveillance, customised software solutions and maintenance support services had been secured, among which included contracts from the Legal Affairs Bureau, the Identification Bureau, the Civic and Municipal Affairs Bureau, the Macao Economic Services, the Financial Services Bureau, the Judiciary Police, the Social Security Fund, the Land, Public Works and Transport Bureau and the Marine and Water Bureau, to name a few.

In April 2016, the Government of Macao initiated its first ever Five-Year Development Plan, which aims to position Macao as a world centre of tourism and leisure. This Five-Year Development Plan, which went under public consultation for two months, spans across developments in five main areas, namely land and urban planning, infrastructure construction, transportation and intelligent city, environmental protection and security. The Group will keep close watch of the Five-Year Development Plan and on its implementation so as to proactively identify potential business opportunities that will arise.

During the Three-Month Period, in Hong Kong, the Group made some major wins from different regional telecommunications service providers, securing over HK\$25,000,000 worth of contracts. In addition, the Group continued to actively explore new business opportunities in the area of data network infrastructure projects for major local enterprises. Among the potential business opportunities identified, proof of concept of a data network infrastructure solution has been successfully demonstrated to a potential client and positive review has been received.

During the Three-Month Period, contracts secured by TSTSH and TSTJX continued to be challenging as different telecommunications service providers remained cautious over their capital expenditures programmes. Therefore, focus of TSTSH and TSTJX remained primarily on the completion of the different contracts, which totalled approximately HK\$10,000,000, that were secured during the last quarter of 2015.

Other Investments

TTSA Market competition in Timor-Leste continued to have an adverse impact on the operating performance of TTSA. During the Six-Month Period, TTSA reported revenue of HK\$153,025,000, representing a decline of 8.78% as compared to the corresponding period of last year, while TTSA reported net loss of HK\$23,900,000 for the same period as compared to a net profit of HK\$963,000 for the same preceding period of 2015.

During the Three-Month Period, the Government of Timor-Leste decided not to increase its equity stake in TTSA. Subsequent to the decision of the local government, to the best knowledge of the Group, a local Timorese businessman has approached and commenced negotiations with Oi (which holds a 76% shareholding in TPT – Telecomunicações Públicas de Timor, S.A., a company incorporated in the Portuguese Republic with limited liability, and which in turn is the largest shareholder of TTSA that holds 54.01% equity interests in TTSA) to acquire its equity interests in TTSA. The Group will continue to keep close watch of any latest developments at TTSA, in particular with respect to any potential change of shareholding.

Vodacabo Subsequent to the disposal of Vodacabo in early February 2016, the proceeds from the disposal, which approximated HK\$1,218,000, was received in early July 2016.

GTGIL Another investment holding is pertained to GTGIL which is principally engaged in the 1. trading of electronic parts and components in relation to display modules and touch panel modules, and provision of professional solution with engineering services; and 2. property development and property investment. As a non-core asset of the Group, it has been the intention to gradually dispose of all its shareholdings in GTGIL in the open market. During the Six-Month Period, the Group has not disposed of any GTGIL Shares. As at 30th June 2016, the Group held 82,395,392 GTGIL Shares or approximately 2.30% of GTGIL.

FINANCIAL REVIEW

During the Three-Month Period, for the surveillance project and data network infrastructure project that the Group secured from a gaming operator, the Group focused on the initial stages such as fine-tuning of design, confirmation of equipment deployed, materials submission and stocking of installation materials. Consequently, nil revenue related to these projects was recognised during the Six-Month Period. While revenue of the Group for the Three-Month Period levelled approximately that of the revenue generated during the same period of the preceding year, in the absence of revenue recognised from these two major projects, the Group registered revenue of HK\$125,921,000 for the Six-Month Period, representing a decline of 17.02% as compared to the same period of last year. Another factor that explained the drop of revenue was attributed to the weaker operating performance of TSTSH and TSTJX with both entities collectively reported revenue of HK\$2,162,000 for the Six-Month Period as compared to revenue of HK\$10,359,000 for the preceding six-month period of last year.

With revenue generated from the Macao and Hong Kong markets during the Six-Month Period comprising higher margin works, such as software development contracts, installation services and maintenance support services, the Group witnessed an improvement to the adjusted EBITDA generated from these two territories, with loss narrowing from HK\$15,708,000 for six months ended 30th June 2015 to HK\$9,848,000 for the Six-Month Period. Nevertheless, with TSTSH and TSTJX lacking business momentum during the Six-Month Period, coupled with the software development works of over HK\$10,000,000 still in progress, gross profit margin for the Group lowered from 23.28% from the six-month period of the preceding year to 19.03% for the Six-Month Period while net loss of the Group widened from HK\$13,514,000 to HK\$19,560,000.

The Group continued to enjoy a healthy capital structure with no external borrowings. As compared to the level of inventories as at 31st December 2015, there was a build-up of inventories during the Three-Month Period, the increment of which related primarily to the stock-up of installation materials, such as cabling, power cables, etc., to accommodate the major surveillance project and data networks infrastructure project that it secured from a gaming operator. As at 30th June 2016, the Group had total net cash balances (including pledged cash deposits) and yield-enhanced financial instruments of approximately HK\$135,592,000, or 37.40% of total assets. Given the need to reserve cash to support the orders on hand of over HK\$200,000,000, the Board does not propose an interim dividend to be paid out for the Six-Month Period.

OTHER DISCUSSIONS

Employees' Information

As at 30th June 2016, the Group had 263 employees, of which 128, 9 and 126 employees were based in Mainland China, Hong Kong and Macao respectively. Employee costs totalled HK\$27,328,000.

The remuneration and bonus policies of the Group were basically determined by the performance of individual Directors and employees.

The Company adopted a share option scheme whereby certain employees of the Group may be granted options.

The Group also provided various training programmes and product orientation for the marketing and technical employees so as to improve their overall qualifications and to continuously keep them abreast of industry and technological changes.

Capital Commitments and Significant Investments

Details of the significant investments of the Group as at 30th June 2016 are set out in the paragraphs above. Save as disclosed, the Group did not have any significant capital commitments and significant investments.

Charges on Group Assets

As at 30th June 2016, bank deposit of approximately HK\$26,036,000 was pledged for obtaining banking facilities. Save as disclosed, the Group did not have any charges on assets of the Group.

Details of Material Acquisitions and Disposals

On 31st December 2015, the Group signed a sale and purchase agreement with an independent third party whereby the Group agreed to sell, and the counter party agreed to buy, its 30% investment in Vodacabo at a consideration of HK\$1,218,000 (approximately HK\$812 per share). As a result, the investment in Vodacabo of HK\$1,008,000 was presented as held for sale as at 31st December 2015. The transaction was completed in February 2016.

Save as disclosed above, during the Six-Month Period, the Group had no other material acquisitions or disposals.

Details of Future Plans for Material Investment or Capital Assets

The Directors do not have any future plans for material investments or capital assets.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in HK\$, MOP, US\$ and Renminbi, the lawful currency of Mainland China. The Group incurred net foreign exchange losses of HK\$889,000 in the Six-Month Period.

Change of Directors' emoluments

The amounts payable per annum to each of the following Directors under their service contracts have been revised with effect from 1st January 2016:

	HK\$' 000
José Manuel dos Santos	4,702
Kuan Kin Man	1,314
Monica Maria Nunes	1,586

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th June 2016, the relevant interests and short positions of the Directors or Chief Executive in the Shares, underlying Shares and debentures of the Company or its Associated Corporations which will be required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which he took or deemed to have taken under such provisions of SFO) or required pursuant to Section 352 of SFO, to be entered in the register referred to therein or required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

Aggregate long positions in the Shares

Name of Director	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Settlor of a discretionary trust (note 1)	301,538,000	49.12
Kuan Kin Man	Personal (note 2)	22,112,500	3.60
Monica Maria Nunes	Personal (note 3)	2,452,500	0.40
Fung Kee Yue Roger	Personal (note 4)	210,000	0.03

Notes:

- As at 30th June 2016, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by OHHL, a company wholly-owned by HSBCITL, which is a trustee of the existing trust whereby the family members of José Manuel dos Santos (the settlor of the trust) were the discretionary objects and which assets included a controlling stake of 49.12% of the issued share capital of the Company.
- The personal interest of Kuan Kin Man comprised 22,112,500 Shares. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- The personal interest of Monica Maria Nunes comprised 2,452,500 Shares. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- The personal interest of Fung Kee Yue Roger comprised 210,000 Shares. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.

ERL, José Manuel dos Santos and his nephews (namely Rui Nuno dos Santos, Luis Alberto dos Santos and Antonio dos Santos Robarts, all of whom hold interests in the Shares through Best Eastern Limited, Back Support Properties Limited and Yat Yi Properties Limited (companies incorporated in BVI with limited liability) respectively) have informed the Company that they have been, and continue to be, acting in concert for the purposes of the Code on Takeovers and Mergers and Share Buy-backs approved by the Securities and Futures Commission established under Section 3 of the Securities and Futures Commission Ordinance and continuing in existence under Section 3 of SFO as amended from time to time. As at 30th June 2016, the parties acting in concert with ERL and José Manuel dos Santos held approximately 59.80% of all the Shares in issue.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

The register of Substantial Shareholders required to be kept under Section 336 of Part XV of SFO showed that as at 30th June 2016, the Company was notified of the following Substantial Shareholders' interests, being 5% or more of the issued share capital of the Company. These interests were in addition to those disclosed above in respect of the Directors and Chief Executive:

Aggregate long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
ERL	Corporate interest (note 1)	301,538,000	49.12
OHHL	Corporate interest (note 1)	301,538,000	49.12
HSBCITL	Corporate interest (note 1)	301,538,000	49.12
Lei Hon Kin	Family interest (note 2)	301,538,000	49.12

Notes:

- As at 30th June 2016, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by OHHL, a company wholly-owned by HSBCITL, being the trustee of the existing trust.
- Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

COMPETING BUSINESS

As at 30th June 2016, none of the Directors, or any person who was (or group of persons who together were) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who was (or were) able, as a practical matter, to direct or influence the management of the Company or any of their respective Close Associates had any interest in a business, which competed or might compete with the business of the Group.

CORPORATE GOVERNANCE

The Company applied the principles in the Code by complying with the Code throughout the Six-Month Period, except that:

- 1 the independent non-executive Directors did not attend the AGM held in the Six-Month Period;
- 2 the management do not provide all Directors with monthly updates; and
- 3 the Chairman of the Board did not attend the AGM held in the Six-Month Period.

A.6.7 The independent non-executive Directors consider that such attendance could not help to develop a balanced understanding of the views of the Members because not many Members attended the AGM in past few years.

C.1.2 Management consider that quarterly updates and periodic instant updates when developments arising out of the ordinary business instead of monthly updates are sufficient for the Board to discharge its duties.

E.1.2 The Chairman of the Board was away on a business trip on the date of AGM.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions.

The Company has made specific enquiry of all Directors that they have complied with the required standard of dealings and its code of conduct regarding Directors' securities transactions.

There is no event of non-compliance with the required standard of dealings.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company did not redeem any of the Shares during the Six-Month Period. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the Six-Month Period.

DEFINITIONS

“AGM”	annual general meeting
“Associated Corporation”	a corporation: <ol style="list-style-type: none">1 which is a subsidiary or holding company of the Company or a subsidiary of the holding company of the Company; or2 (not being a subsidiary of the Company) in which the Company has an interest in the shares of a class comprised in its share capital exceeding in nominal value one-fifth of the nominal value of the issued shares of that class
“Board”	the board of Directors (not applicable to Main Board)
“Brazil”	The Federative Republic of Brazil
“BVI”	the British Virgin Islands
“Chief Executive”	a person who either alone or together with one or more other persons is or will be responsible under the immediate authority of the Board for the conduct of the business of the Company
“Close Associate”	has the meaning ascribed thereto in the GEM Listing Rules
“CNMS”	customer network management system
“Code”	the code provisions of the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules (not applicable to Code on Takeovers and Mergers and Share Buy-backs)
“Company”	Vodatel Networks Holdings Limited
“Director”	the director of the Company
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“ERL”	Eve Resources Limited, a company incorporated in BVI with limited liability
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
“GEM”	the Growth Enterprise Market operated by the Exchange

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM made by the Exchange from time to time
“Group”	the Company and its subsidiaries
“GTGIL”	Gold Tat Group International Limited, a company incorporated in the Cayman Islands with limited liability and GTGIL Shares are listed on GEM
“GTGIL Share”	ordinary share of US\$0.001 each in the share capital of GTGIL
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standard
“HK cent”	Hong Kong Cent, where 100 HK cents equal HK\$1
“HKFRS”	financial reporting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong). They comprise 1. Hong Kong Financial Reporting Standards, 2. HKAS, and 3. Interpretations
“Hong Kong”	the Hong Kong Special Administrative Region of PRC (not applicable to Hong Kong Accounting Standard, Hong Kong Exchanges and Clearing Limited, Hong Kong Financial Reporting Standards, the Hong Kong Institute of Certified Public Accountants and The Stock Exchange of Hong Kong Limited)
“HSBCITL”	HSBC International Trustee Limited, a company incorporated in BVI with limited liability.
“Macao”	the Macao Special Administrative Region of PRC
“Main Board”	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with the GEM. For the avoidance of doubt, the Main Board excludes GEM
“Mainland China”	PRC, other than the regions of Hong Kong, Macao and Taiwan
“Member”	the holder of the Shares
“MOP”	Patacas, the lawful currency of Macao
“OHHL”	Ocean Hope Holdings Limited, a company incorporated in BVI with limited liability
“Oi”	Oi S.A., a company incorporated in Brazil with limited liability and whose shares are listed on the New York Stock Exchange in USA and BM&FBOVESPA in Brazil

“PPE”	property, plant and equipment
“PRC”	The People’s Republic of China
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
“Share”	ordinary share of HK\$0.10 each in the share capital of the Company (not applicable to Code on Takeovers and Mergers and Share Buy-backs and GTGIL Share)
“Six-Month Period”	six months ended 30th June 2016
“Substantial Shareholder”	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
“Three-Month Period”	three months ended 30th June 2016
“Timor-Leste”	The Democratic Republic of Timor-Leste
“TSTJX”	泰思通軟件(江西)有限公司, incorporated in PRC with limited liability and an indirectly owned subsidiary of the Company
“TSTSH”	泰思通軟件(上海)有限公司, incorporated in PRC with limited liability and an indirectly owned subsidiary of the Company
“TTSA”	Timor Telecom, S.A., a company incorporated in Timor-Leste with limited liability
“US\$”	United States Dollar, the lawful currency of USA
“USA”	The United States of America
“Vodacabo”	Vodacabo, S A, a company incorporated in Timor-Leste with limited liability and a former indirectly owned associate of the Company

By order of the Board
Monica Maria Nunes
Deputy Chairman

Macao, 11th August 2016

Executive Directors

José Manuel dos Santos
Kuan Kin Man
Monica Maria Nunes

Independent non-executive Directors

Fung Kee Yue Roger
Wong Tsu Au Patrick
Tou Kam Fai