



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

2017

* *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

- Supported by revenue generated from the surveillance project and data network infrastructure project from a gaming operator in Macao at its new establishment in Cotai, the Group registered revenue of HK\$73,595,000 for the Three-Month Period, or an increase of 14.81% on a year-on-year basis
- With a more balanced product mix comprising of sale of equipment and installation services witnessed for the Three-Month Period, gross profit hiked up from HK\$11,322,000 to HK\$19,302,000 with net loss of the Group narrowed from HK\$11,229,000 to HK\$1,616,000
- Despite wary sentiment about the gaming market in Macao, the Group remained busy with the surveillance project and data network infrastructure project that it secured from a gaming operator during November 2015 and April 2016 respectively
- Business momentum of the “Vodatel” subsidiary in Hong Kong remained strong, securing over HK\$20,000,000 worth of contracts during the Six-Month Period
- No further update over the proposed disposal of the equity participation in TTSA by Oi
- Restricted cash, cash and cash equivalents and yield-enhanced financial instruments as at 30th June 2017 totaled approximately HK\$122,965,000 as at 30th June 2017, or 35.22% of total assets
- The Directors do not recommend payment of 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

		Unaudited			
		Three months ended		Six months ended	
	Note	Three-Month Period HK\$' 000	30th June 2016 HK\$' 000	Six-Month Period HK\$' 000	30th June 2016 HK\$' 000
Revenue	7	73,595	64,099	149,304	125,921
Cost of sales		<u>(54,293)</u>	<u>(52,777)</u>	<u>(114,628)</u>	<u>(101,952)</u>
Gross profit		19,302	11,322	34,676	23,969
Other gains		416	211	416	447
Selling, marketing costs and administrative expenses		<u>(21,814)</u>	<u>(22,938)</u>	<u>(47,774)</u>	<u>(44,857)</u>
Operating loss	8	(2,096)	(11,405)	(12,682)	(20,441)
Finance income		480	744	1,131	1,511
Finance costs		—	(5)	—	(5)
Loss before income tax		(1,616)	(10,666)	(11,551)	(18,935)
Income tax expense	9	—	(563)	—	(625)
Loss for the period		<u>(1,616)</u>	<u>(11,229)</u>	<u>(11,551)</u>	<u>(19,560)</u>
Loss attributable to:					
– Owners of the Company		(2,144)	(9,911)	(10,535)	(17,288)
– Non-controlling interests		<u>528</u>	<u>(1,318)</u>	<u>(1,016)</u>	<u>(2,272)</u>
		<u>(1,616)</u>	<u>(11,229)</u>	<u>(11,551)</u>	<u>(19,560)</u>
Loss per Share attributable to owners of the Company (expressed in HK cents per Share)					
Basic and diluted loss per Share	15	<u>(0.35)</u>	<u>(1.61)</u>	<u>(1.71)</u>	<u>(2.82)</u>

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 2016 HK\$' 000
Loss for the period	(11,551)	(19,560)
Other comprehensive income/(expense):		
<i>Items that may be reclassified to profit or loss</i>		
Change in value of AFS financial assets, net of tax	2,614	(1,702)
Currency translation differences	(91)	21
Total items that may be reclassified subsequently to profit or loss and other comprehensive income/(expense) for the period, net of tax	2,523	(1,681)
Total comprehensive expense for the period	(9,028)	(21,241)
Total comprehensive expense for the period attributable to:		
– Owners of the Company	(8,012)	(18,969)
– Non-controlling interests	(1,016)	(2,272)
	(9,028)	(21,241)

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 2017 HK\$' 000	Audited 31st December 2016 HK\$' 000
ASSETS			
Non-current assets			
PPE	11	3,679	2,646
Investment in an associate		801	801
AFS financial assets		67,156	39,402
Total non-current assets		71,636	42,849
Current assets			
Inventories		32,261	27,713
Current income tax receivable		4	4
Trade receivables	12	114,767	224,738
Other receivables, deposits and prepayments		40,685	26,569
AFS financial assets		11,452	11,236
Cash and cash equivalents		52,500	64,122
Restricted cash		25,796	24,895
Total current assets		277,465	379,277
LIABILITIES			
Current liabilities			
Trade and bills payables	14	52,163	118,522
Other payables and accruals		59,198	57,236
Dividend payable		6,144	—
Current income tax liabilities		8,761	8,587
Bank overdrafts		38	—
Total current liabilities		126,304	184,345
Net current assets		151,161	194,932
Total assets less current liabilities		222,797	237,781

		Unaudited	Audited
		30th June	31st December
	Note	2017	2016
		HK\$' 000	HK\$' 000
Financed by:			
EQUITY			
Equity attributable to owners of			
the Company			
Share capital	13	61,570	61,382
Other reserves		159,024	156,501
Retained profits			
– Proposed final dividend		–	6,144
– Others		4,363	14,898
		<u>224,957</u>	<u>238,925</u>
Non-controlling interests		(2,160)	(1,144)
		<u>222,797</u>	<u>237,781</u>

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 profits/ (accumulated losses) HK\$' 000	Total HK\$' 000	Non- controlling interests HK\$' 000	Total equity HK\$' 000
Balance as at 1st January 2017	61,382	156,501	21,042	238,925	(1,144)	237,781
Total comprehensive expense for the Six-Month Period	—	2,523	(10,535)	(8,012)	(1,016)	(9,028)
Total transactions with owners, recognised directly in equity						
Scheme: proceeds from Shares issued	188	—	—	188	—	188
Dividend relating to 2016	—	—	(6,144)	(6,144)	—	(6,144)
	188	—	(6,144)	(5,956)	—	(5,956)
Balance as at 30th June 2017	61,570	159,024	4,363	224,957	(2,160)	222,797
Balance as at 1st January 2016	61,382	184,668	18,191	264,241	1,563	265,804
Total comprehensive expense for the period ended 30th June 2016	—	(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)
Balance as at 30th June 2016	61,382	182,987	(5,235)	239,134	(709)	238,425

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

	Unaudited	
	Six- Month Period HK\$' 000	For the six months ended 30th June 2016 HK\$' 000
Cash flows from operating activities		
Cash generated from/(used in) operations	14,900	(3,297)
Income tax paid	(18)	(295)
Cash flows from operating activities - net	14,882	(3,592)
Cash flows from investing activities		
Proceeds from sale of AFS financial assets	7,948	10,704
Purchases of AFS financial assets	(33,242)	(29,265)
Purchases of PPE	(1,666)	(316)
Interest received	1,131	1,511
Cash flows from investing activities - net	(25,829)	(17,366)
Cash flows from financing activities		
Proceeds from issue of Shares	188	—
Increase in restricted bank deposits	(901)	(127)
Cash flows from financing activities - net	(713)	(127)
Net decrease in cash and cash equivalents	(11,660)	(21,085)
Cash and cash equivalents at the beginning of the period	64,122	77,495
Cash and cash equivalents at end of the period	52,462	56,410
Cash and cash equivalents comprised:		
Bank overdrafts	(38)	(1,034)
Cash and banks	52,500	57,444
Cash and cash equivalents	52,462	56,410

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 10th August 2017.

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 2016, 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 2016, as described in those annual financial statements.

Amendments to HKFRS effective for the financial year ending 31st December 2017 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 2016, 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 2017.

	Level one HK\$' 000	Level three HK\$' 000	Total HK\$' 000
Assets			
AFS financial assets			
– Equity securities	7,251	25,084	32,335
– Debt investments	39,059	—	39,059
	<u>46,310</u>	<u>25,084</u>	<u>71,394</u>
Total assets	<u>46,310</u>	<u>25,084</u>	<u>71,394</u>

The following table presents the financial assets of the Group that were measured at fair value as at 31st December 2016.

	Level one HK\$' 000	Level three HK\$' 000	Total HK\$' 000
Assets			
AFS financial assets			
– Equity securities	5,109	25,084	30,193
– Debt investments	18,989	—	18,989
	<u>24,098</u>	<u>25,084</u>	<u>49,182</u>
Total assets	<u>24,098</u>	<u>25,084</u>	<u>49,182</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 AFS financial assets using significant unobservable inputs (level three):

Fair value as at 31st December 2016 HK\$'000	Valuation technique	Unobservable inputs	
25,084	Discounted cash flow	Weighted average cost of capital	21.74%
		Long-term revenue growth rate	1.20%
		Long-term pre-tax operating margin	13.88%
		Discount for lack of marketability	10.90%
		Discount for lack of control	24.76%

(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 AFS financial assets. Interest income and expenditure were not allocated to segments, as this type of activity was driven by the executive Directors, who managed the cash position of the Group.

Total segment assets excluded AFS 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 and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services			
	Mainland China	Hong Kong and Macao	CNMS	Total
	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000
Six-Month Period				
Revenue from external customers	4,809	140,770	3,725	149,304
Adjusted EBITDA	(2,635)	(7,328)	(1,969)	(11,932)
As at 30th June 2017				
Total assets (exclude AFS financial assets)	15,524	236,216	18,753	270,493

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

	Six-Month Period HK\$' 000
Adjusted EBITDA	(11,932)
Depreciation	(633)
Finance income	1,131
Loss on disposal of AFS financial assets	(117)
Loss before income tax	<u>(11,551)</u>

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 2016 HK\$' 000
Cost of goods sold	(93,738)	(85,409)
Reversal of provision on trade receivables	462	—

9 Income tax expense

Hong Kong profits tax was provided at the rate of 16.5% (six months ended 30th June 2016: 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 2016 HK\$' 000
Current income tax		
– Macao complementary profits tax	—	59
Adjustments in respect of prior years	—	566
	<u>—</u>	<u>625</u>
	<u><u>—</u></u>	<u><u>625</u></u>

10 Dividends

The Directors do not recommend payment of interim dividend for the Six-Month Period (six months ended 30th June 2016: nil).

11 PPE

During the Six-Month Period, the Group acquired PPE at a cost of HK\$1,666,000.

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 the individual customers and the Group. As at 30th June 2017 and 31st December 2016, the ageing analysis of the trade receivables based on invoice date was as follows:

	As at 30th June 2017 HK\$' 000	As at 31st December 2016 HK\$' 000
Within three months	83,498	177,569
>Three months but ≤ six months	4,725	11,006
>Six months but ≤ twelve months	9,294	1,337
Over twelve months	31,666	49,451
	<u>129,183</u>	<u>239,363</u>

13 Share capital

Shares, issued and fully paid

	Number of Shares (thousands)	Share capital HK\$' 000
Opening balance 1st January 2017	613,819	61,382
Proceeds from Shares issued - Scheme (Note (a))	616	188
	<u>614,435</u>	<u>61,570</u>

- (a) Scheme: Options exercised during the Six-Month Period resulted in 616,000 Shares being issued (six months ended 30th June 2016: nil), with exercise proceeds of HK\$188,000 (six months ended 30th June 2016: nil). The related price at the time of exercise was HK\$0.305 per Share.

14 Trade and bills payables

As at 30th June 2017 and 31st December 2016, the ageing analysis of the trade and bills payables based on invoice date was as follows:

	As at 30th June 2017 HK\$' 000	As at 31st December 2016 HK\$' 000
Within three months	44,776	103,795
> Three months but ≤ six months	1,363	196
> Six months but ≤ twelve months	1,167	6,948
Over twelve months	4,857	7,583
	<u>52,163</u>	<u>118,522</u>

15 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 2016 HK\$' 000
Loss attributable to owners of the Company	<u>(10,535)</u>	<u>(17,288)</u>
Weighted average number of Shares in issue (thousands)	<u>614,360</u>	<u>613,819</u>

(b) Diluted

Diluted loss per Share for the Six-Month Period was the same as the basic loss per Share since the exercise of the Options would have an anti-dilutive effect on the loss per Share. No diluted loss per Share for the six months ended 30th June 2016 was presented as there was no outstanding Options as at 30th June 2016.

16 Related-party transactions

The following is a summary of significant related party transactions entered into the ordinary course of business between the Group and its related parties.

(a) Sale of goods

	Six-Month Period HK\$' 000
– An entity controlled by key management personnel	<u>40</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 93

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 670

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\$4,077,000 for the Six-Month Period.

(e) Balances as at 30th June 2017

HK\$' 000

Payables to related parties:

– Executive Directors 3,177

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. As per the official statistics from the Government of Macao, the enclave reported its sixth continuous month of year-on-year increase and total gross revenue from different gaming activities for the Six-Month Period chalked up to HK\$122,700,000,000, representing a year-on-year growth of 17.25%. While there are visible signs of recovery in the gaming sector, gaming operators have remained cautious over their capital expenditures by either delaying works or gradually engaging their expansion plans by phases. Gaming operators have remained mindful, fuelled by reservation over a sustainable recovery of the gaming market and continuous introduction of new market conditions, for example, a revised bill on smoking that will now require even VIP areas at gambling establishments to set up smoking lounges.

Despite wary market sentiment, the Group remained busy during the Three-Month Period as it actively worked on the 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. Other works that kept the teams at Vodatel engaged included the various contracts that it secured during 2017, including retrofitting the surveillance system of a gaming operator at one of their existing premises, installation and commissioning of a new surveillance system at the airport in Macao, expanding the existing surveillance system at UM and performing maintenance works for the Government of Macao and different gaming operators.

The Government of Macao, public utilities, hospitals and educational institutions have, over the past years, remained some of the key clients of MDL. During the Three-Month Period, MDL continued to secure works in the areas of servers, storage, networks, customised software solutions and maintenance support services from public utilities, hospitals, UM and different departments of the Government of Macao, such as the Civic and Municipal Affairs Bureau, the Social Security Fund, the Health Bureau, to name a few, with contracts won exceeding HK\$15,000,000. In addition, MDL continued to make good progress in the marketing to the Government of Macao the “premier support services”, which involves partnering with vendor to proactively assist the customer to maximise IT resources, ensure health status of information technology operations, provide customised and personal service management and deliver prioritised 24/7 problem resolution support. New orders of approximately HK\$2,000,000 were secured from the Financial Services Bureau, the Legal Affairs Bureau and the Public Administration and Civil Service Bureau during the Three-Month Period.

In 2016, the “Vodatel” subsidiary in Hong Kong made some remarkable achievements by doubling its order book for the year to over HK\$90,000,000. Leveraging on the momentum, the Hong Kong sales team fetched another HK\$5,000,000 worth of contracts from different regional telecommunications service providers during the Three-Month Period, bringing its order book to over HK\$20,000,000 as at 30th June 2017.

In Mainland China, during the Three-Month Period, 泰思通軟件(上海)有限公司 and 泰思通軟件(江西)有限公司 (both incorporated in PRC with limited liability and indirectly owned subsidiaries of the Company) continued to focus on strengthening the functionalities of its CNMS and on enhancing its graphic user interface to provide customised interface to meet the specific needs and requirements of its customers. In the same period, the “Vodatel” subsidiary made positive business progress to extend its reach to the banking and insurance sectors, which was done via forming strategic alliances with local system integrators. Total new orders for the provision of networking equipment and services of approximately HK\$10,000,000 were secured.

Other Investments

TTSA The operating performance of TTSA continued to be weakened by market competition and continuous rollout of new telecommunications services by its competitors, for example the offering of 4G services and self-developed 4G devices in Timor-Leste in July 2017 by the Vietnamese competitor. Consequently, during the Six-Month Period, TTSA reported revenue of HK\$115,495,000, representing a decline of 17.68% on a year-on-year basis, while net loss widened from HK\$23,900,000 for the initial six months of 2016 to HK\$50,051,000 for the Six-Month Period.

As at the date of this announcement, with respect to the proposed disposal of the equity participation in TTSA by Oi, which together with its acting in concert parties holds approximately 57% interests in TTSA, there is no further update subsequent to the approval from the business court in Brazil on 28th March 2017 to allow disposal with the condition that the offer price aligned its valuation. The Group will continue to keep close watch of any latest developments.

GTGIL Another investment holding is pertained to GTGIL which is principally engaged in 1. the 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 2017, the Group held 82,395,392 GTGIL Shares or approximately 2.00% of GTGIL.

Financial Review

Supported by revenue generated from the surveillance project and data network infrastructure project from a gaming operator in Macao at its new establishment in Cotai, the Group registered revenue of HK\$73,595,000 for the Three-Month Period, or an increase of 14.81% on a year-on-year basis. With a stronger second quarter, total revenue reported for the Six-Month Period reached HK\$149,304,000, or an increase of 18.57% over the same corresponding period of last year of HK\$125,921,000. With a more balanced product mix comprising of sale of equipment and installation services witnessed for the Three-Month Period, gross profit margin improved from 17.66% to 26.23%, while gross profit hiked up from HK\$11,322,000 to HK\$19,302,000. Coupled with selling, marketing costs and administrative expenses were under control, net loss of the Group for the Three-Month Period narrowed from HK\$11,229,000 to HK\$1,616,000.

The Group continued to enjoy a healthy capital structure with no external borrowings. As compared to the level of inventories as at 31st December 2016, there was a build-up of inventories as at 30th June 2017, the increment of which related primarily to the stock-up of equipment and installation materials, such as cabling, fibre cords, power cables, etc., to accommodate the major surveillance project and data networks infrastructure project that it secured from a gaming operator. With strong recovery of trade receivables, level of trade receivables reduced considerably from HK\$224,738,000 as at 31st December 2016 to HK\$114,767,000 as at 30th June 2017. During the Six-Month Period, the Group gradually settled its trade payables, hence level of trade and bills payable also declined from HK\$118,522,000 as at 31st December 2016 to HK\$52,163,000 as at 30th June 2017.

Total net cash balances (including restricted cash) and yield-enhanced financial instruments stood at approximately HK\$122,965,000 as at 30th June 2017, or 35.22% of total assets. As at 30th June 2017, AFS financial assets (non-current and current) of HK\$78,608,000 comprised of the investments of the Group in TTSA of HK\$25,084,000, GTGIL Shares of HK\$7,251,000 and investments in corporate bonds and other financial instruments of HK\$46,273,000. The increase of AFS financial assets from HK\$50,638,000 as at 31st December 2016 to HK\$78,608,000 as at 30th June 2017 was explained primarily by the acquisition of bond holdings as a means to better manage the surplus cash of the Group. As at 30th June 2017, AFS financial assets included corporate bonds issued by conglomerates and property developers that are listed on the Exchange.

Despite the comfortable cash position of the Group, the Board does not propose an interim dividend to be paid out for the Six-Month Period in order to support business expansion and to reserve cash as working capital.

OTHER DISCUSSIONS

Employees' Information

As at 30th June 2017, the Group had 235 employees, of which 98, 11 and 126 employees were based in Mainland China, Hong Kong and Macao respectively. Employee costs totalled HK\$31,737,000.

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

The Company adopted the Scheme whereby certain employees of the Group were 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 2017 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 2017, bank deposit of approximately HK\$25,796,000 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

During the Six-Month Period, the Group had no 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\$, Patacas, the lawful currency of Macao, US\$ and Renminbi, the lawful currency of Mainland China. The Group incurred net foreign exchange losses of HK\$151,000 during 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 2017:

	HK\$' 000
José Manuel dos Santos	4,885
Kuan Kin Man	1,348
Monica Maria Nunes	1,643

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 2017, the relevant interests and short positions of the Directors or Chief Executives 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	Number of underlying Shares (in respect of Options held)	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Corporate (Note 1)	301,538,000	—	49.08
Kuan Kin Man	Personal (Note 2)	22,112,500	960,000	3.76
Monica Maria Nunes	Personal (Note 3)	2,452,500	960,000	0.56
Fung Kee Yue Roger	Personal (Note 4)	210,000	400,000	0.10
Wong Tsu An Patrick	Personal (Note 5)	—	400,000	0.07
Tou Kam Fai	Personal (Note 6)	—	400,000	0.07

Notes:

- As at 30th June 2017, 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 José Manuel dos Santos.
- The personal interest of Kuan Kin Man comprised 22,112,500 Shares and 960,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 960,000 underlying Shares in respect of Options granted to her by the Company. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- The personal interest of Fung Kee Yue Roger comprised 210,000 Shares and 400,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.
- The personal interest of Wong Tsu An Patrick comprised 400,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Wong Tsu An Patrick as beneficial owner.
- The personal interest of Tou Kam Fai comprised 400,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Tou Kam Fai 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 2017, the parties acting in concert with ERL and José Manuel dos Santos held approximately 59.74% 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 2017, 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 Executives:

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 (Note 1)	301,538,000	49.08
OHHL	Corporate (Note 1)	301,538,000	49.08
Lei Hon Kin	Family (Note 2)	301,538,000	49.08

Notes:

- 1 As at 30th June 2017, 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 José Manuel dos Santos.
- 2 Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

OPTIONS

Details of the Shares outstanding on which Options were granted as at 30th June 2017 under the Scheme are as follows:

	Number of Options			Exercise price HK\$	Grant date	Exercisable from	Exercisable until	
	held as at 1st January 2017	Exercised during the Six-Month Period (Note 1)	Cancelled during the Six-Month Period					held as at 30th June 2017
Directors								
Kuan Kin Man	960,000	—	—	960,000	0.305	27th September 2016	28th September 2016	27th September 2019
Monica Maria Nunes	960,000	—	—	960,000	0.305	27th September 2016	28th September 2016	27th September 2019
Fung Kee Yue Roger	400,000	—	—	400,000	0.305	27th September 2016	28th September 2016	27th September 2019
Wong Tsu An Patrick	400,000	—	—	400,000	0.305	27th September 2016	28th September 2016	27th September 2019
Tou Kam Fai	400,000	—	—	400,000	0.305	27th September 2016	28th September 2016	27th September 2019
Director's associate								
Kuan Ieng Cheok	30,000	—	—	30,000	0.305	27th September 2016	28th September 2016	27th September 2019
Continuous contract employees	26,718,000	(616,000)	—	26,102,000	0.305	27th September 2016	28th September 2016	27th September 2019
Others	21,508,000	—	(21,000,000)	508,000	0.305	27th September 2016	28th September 2016	27th September 2019
	<u>51,376,000</u>	<u>(616,000)</u>	<u>(21,000,000)</u>	<u>29,760,000</u>				

Note:

- The closing price of the Share was HK\$0.46 on 20th January 2017, the business day immediately before the Options were exercised.

COMPETING BUSINESS

As at 30th June 2017, 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; and
- 2 the management do not provide all Directors with monthly updates.

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.

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

“4G”	fourth generation of mobile telecommunications technology
“AFS”	available-for-sale
“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 (not applicable to New York Stock Exchange)
“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” or “Vodatel”	the Company and its subsidiaries (not applicable to Gold Tat Group International Limited)
“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)
“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 GEM. For the avoidance of doubt, the Main Board excludes GEM
“Mainland China”	PRC, other than the regions of Hong Kong, Macao and Taiwan
“MDL”	Mega Datatech Limited, incorporated in Macao with limited liability and an indirect wholly-owned subsidiary of the Company
“Member”	the holder of the Shares
“OHHL”	Ocean Hope Holdings Limited, a company incorporated in BVI with limited liability
“Oi”	Oi S.A. - In Judicial Reorganisation, 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
“Option”	an option to subscribe for Shares pursuant to the Scheme
“PPE”	property, plant and equipment
“PRC”	The People’s Republic of China
“Scheme”	the share option scheme approved by the Members at the AGM on 22nd June 2012

“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 2017
“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 2017
“Timor-Leste”	The Democratic Republic of Timor-Leste
“TTSA”	Timor Telecom, S.A., a company incorporated in Timor-Leste with limited liability
“UM”	University of Macau
“US\$”	United States Dollar, the lawful currency of USA
“USA”	The United States of America

By order of the Board
José Manuel dos Santos
Chairman

Macao, 10th August 2017

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