



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

2019

* *for identification purpose only*

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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 a stronger operating performance during the Three-Month Period, the Group registered revenue of HK\$111,470,000, representing an increase of HK\$15,806,000 or 16.52% over the corresponding three months of 2018. Total revenue for the Six-Month Period reached HK\$188,994,000
- With a more balanced product mix comprising of sale of equipment and provision of installation and maintenance support services, the latter of which carries higher gross margin, the Group generated gross profit of HK\$31,298,000, which translated to gross profit margin of 28.08%. Overall gross profit margin for the Six-Month Period improved to 22.87% as a result
- The Group reported net profit of HK\$4,968,000 for the Three-Month Period with net loss for the Six-Month Period narrowed to HK\$7,045,000 from the initial first quarter of HK\$12,013,000
- With key wins, order book reached over HK\$350,000,000 as at 30th June 2019, or over 70% if referencing to the average annual worth of contracts signed by the Group during the past four years
- No update over the proposed disposal of the equity participation in TTSA by Oi
- Total net cash balances and yield-enhanced financial instruments increased from HK\$133,562,000 as at 31st December 2018 to HK\$160,919,000 as at 30th June 2019, representing approximately 41.52% 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:

Condensed consolidated income statement

	Notes	Unaudited			
		Three-Month Period 2018 HK\$' 000	Three months ended 30th June 2018 HK\$' 000	Six-Month Period 2018 HK\$' 000	Six months ended 30th June 2018 HK\$' 000
Revenue	1	111,470	95,664	188,994	179,512
Cost of sales of goods		(66,244)	(57,677)	(118,757)	(107,691)
Cost of providing services		(13,928)	(13,841)	(27,019)	(27,616)
Gross profit		31,298	24,146	43,218	44,205
Selling, marketing costs and administrative expenses		(28,036)	(25,571)	(53,318)	(51,254)
Other gains		569	354	806	788
Operating profit/(loss)	2(a)	3,831	(1,071)	(9,294)	(6,261)
Finance income		1,170	631	2,309	1,205
Finance costs		(28)	(25)	(55)	(25)
Finance income - net		1,142	606	2,254	1,180
Profit/(loss) before income tax		4,973	(465)	(7,040)	(5,081)
Income tax expense	2(b)	(5)	(106)	(5)	(106)
Profit/(loss) for the quarter/half-year		4,968	(571)	(7,045)	(5,187)
Profit/(loss) is attributable to:					
Owners of the Company		5,334	(81)	(5,982)	(4,522)
Non-controlling interests		(366)	(490)	(1,063)	(665)
		4,968	(571)	(7,045)	(5,187)
Earnings/(loss) per Share for profit/ (loss) attributable to the ordinary equity holders of the Company (expressed in HK cent per Share)					
Basic and diluted earnings/(loss) per Share		0.87	(0.01)	(0.97)	(0.74)

The above condensed consolidated income statement should be read in conjunction with the accompanying notes.

Condensed consolidated statement of comprehensive income

	Unaudited	
	Six-Month Period HK\$' 000	Six months ended 30th June 2018 HK\$' 000
Loss for the half-year	<u>(7,045)</u>	<u>(5,187)</u>
OCI/(other comprehensive expense):		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of debt instruments at FVOCI	3,091	(1,661)
Exchange differences on translation of operations in Mainland China	<u>(105)</u>	<u>44</u>
OCI/(other comprehensive expense) for the half-year, net of tax	<u>2,986</u>	<u>(1,617)</u>
Total comprehensive expense for the half-year	<u>(4,059)</u>	<u>(6,804)</u>
Total comprehensive expense for the half-year is attributable to:		
Owners of the Company	(2,996)	(6,139)
Non-controlling interests	<u>(1,063)</u>	<u>(665)</u>
	<u>(4,059)</u>	<u>(6,804)</u>

Condensed consolidated balance sheet

		Unaudited	Audited
		30th June	31st December
		2019	2018
	Notes	HK\$' 000	HK\$' 000
ASSETS			
Non-current assets			
Property, plant and equipment	4	4,527	3,369
Right-of-use assets		1,936	—
Interest in an associate		818	818
Financial assets at FVOCI	7(a)	69,703	43,813
		<u>76,984</u>	<u>48,000</u>
Total non-current assets			
Current assets			
Inventories		52,906	18,120
Contract assets		30,292	21,897
Trade receivables	7(d)	61,562	107,120
Other receivables, deposits and prepayments		73,178	54,517
Financial assets at FVOCI	7(a)	—	3,917
Financial assets at amortised cost		10,237	7,400
Cash and cash equivalents (excluding bank overdrafts)		48,864	79,888
Restricted cash		33,569	—
		<u>310,608</u>	<u>292,859</u>
Total current assets			
Total assets		<u>387,592</u>	<u>340,859</u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		516	—
		<u>516</u>	<u>—</u>

		Unaudited	Audited
		30th June	31st December
		2019	2018
	Note	HK\$' 000	HK\$' 000
Current liabilities			
Trade and bills payables	7(e)	84,226	59,608
Other payables and accruals		30,801	22,923
Contract liabilities		59,433	43,022
Dividend payable		3,072	—
Current tax liabilities		9,693	9,704
Bank overdrafts		22	—
Lease liabilities		1,358	—
		<u>188,605</u>	<u>135,257</u>
Total current liabilities		<u>188,605</u>	<u>135,257</u>
Total liabilities		<u>189,121</u>	<u>135,257</u>
Net assets		<u>198,471</u>	<u>205,602</u>
EQUITY			
Share capital and share premium		61,570	61,570
Other reserves		145,327	142,341
(Accumulated losses)/retained earnings			
– Proposed final dividend		—	3,072
– Others		(5,525)	457
		<u>(5,525)</u>	<u>457</u>
Capital and reserves attributable to the owners of the Company		201,372	207,440
Non-controlling interests		(2,901)	(1,838)
		<u>(2,901)</u>	<u>(1,838)</u>
Total equity		<u>198,471</u>	<u>205,602</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited						
	Attributable to owners of the Company					Non- controlling interests HK\$' 000	Total equity HK\$' 000
	Share capital and share premium HK\$' 000	Other reserves HK\$' 000	Retained earnings/ (accumulated losses) HK\$' 000	Total HK\$' 000			
Balance as at 1st January 2018	61,570	144,821	10,071	216,462	(2,079)		
Total comprehensive expense for the half-year	—	(1,617)	(4,522)	(6,139)	(665)	(6,804)	
Transactions with owners in their capacity as owners: Dividend provided for or paid	—	—	(6,144)	(6,144)	—	(6,144)	
Balance as at 30th June 2018	61,570	143,204	(595)	204,179	(2,744)	201,435	
Balance as at 1st January 2019	61,570	142,341	3,529	207,440	(1,838)	205,602	
Total comprehensive expense for the Six-Month Period	—	2,986	(5,982)	(2,996)	(1,063)	(4,059)	
Transactions with owners in their capacity as owners: Dividend provided for or paid	—	—	(3,072)	(3,072)	—	(3,072)	
Balance as at 30th June 2019	61,570	145,327	(5,525)	201,372	(2,901)	198,471	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		Unaudited	
		Six- Month Period HK\$' 000	For the six months ended 30th June 2018 HK\$' 000
	Note		
Cash flows from operating activities			
Cash generated from/(used in) operations		24,837	(6,841)
Income taxes paid		(5)	—
		24,832	(6,841)
Net cash inflow/(outflow) from operating activities			
		24,832	(6,841)
Cash flows from investing activities			
Payments for property, plant and equipment	4	(2,217)	(259)
Payments for financial assets at FVOCI		(47,775)	(8,650)
Payments for financial assets at amortised cost		(10,237)	—
Proceeds from sale/redemption of financial assets at FVOCI		28,893	5,936
Proceeds from redemption of financial assets at amortised cost		7,400	—
Interest received on financial assets held as investments		2,309	1,205
		(21,627)	(1,768)
Net cash outflow from investing activities			
		(21,627)	(1,768)
Cash flows from financing activities			
Proceeds from borrowings		—	5,716
Principal elements of lease payments		(682)	—
Increase in restricted bank deposits		(33,569)	—
		(34,251)	5,716
Net cash (outflow)/inflow from financing activities			
		(34,251)	5,716
Net decrease in cash and cash equivalents			
		(31,046)	(2,893)
Cash and cash equivalents at the beginning of the half-year		79,888	75,342
		48,842	72,449
Cash and cash equivalents at end of the half-year			
		48,842	72,449
Cash and cash equivalents comprised:			
Bank overdrafts		(22)	(39)
Cash and banks		48,864	72,488
		48,842	72,449
Cash and cash equivalents			
		48,842	72,449

Notes to the condensed financial statements

1 Segment and revenue information

(a) Description of segments

The executive Directors examined the performance of the Group both from a product and geographic perspective and identified three reportable segments of its business:

- (i) Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services – Mainland China

The founding business of the Group mainly comprised of provision of hardware and technical support services.

- (ii) Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services – Hong Kong and Macao

This segment was mainly for the Government of Macao and gaming and hotel operators in Macao, and various telecommunications solutions providers located in Hong Kong with branches across the world. It began to grow since 2003 and specialised in the IT and surveillance systems in casinos. It also included the provision of computer software, hardware and system integration, network management services and customised software in Macao, carried under MDL.

- (iii) CNMS

It engaged in software consultancy services in PRC.

(b) **Segment information provided to the executive Directors**

The table below shows the segment information provided to the executive Directors for the reportable segments for the Six-Month Period and the six months ended 30th June 2018, and also the basis on which revenue is recognised:

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
Revenue from external customers	22,853	162,336	3,805	188,994
Adjusted EBITDA	(1,368)	(5,450)	(858)	(7,676)
Six months ended 30th June 2018				
Revenue from external customers	8,857	166,744	3,911	179,512
Adjusted EBITDA	(563)	(3,601)	(821)	(4,985)
Total segment assets (exclude financial assets at FVOCI and amortised cost)				
30th June 2019	25,911	267,082	14,659	307,652
31st December 2018	22,815	247,881	15,033	285,729

The executive Directors used adjusted EBITDA as a measure to assess the performance of the segments. It excluded the effects of gains or losses on financial instruments.

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.

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

	Six-Month Period HK\$' 000	Six months ended 30th June 2018 HK\$' 000
Adjusted EBITDA	(7,676)	(4,985)
Dividend income	115	—
Depreciation	(1,736)	(1,209)
Finance income - net	2,254	1,180
Gain/(loss) on disposal of financial assets at FVOCI	126	(67)
Impairment loss of financial assets at FVOCI	(123)	—
Loss before income tax	(7,040)	(5,081)

The amounts provided to the executive Directors with respect to segment revenue and segment assets were measured in a manner consistent with that of the financial statements. Segment assets were allocated based on the operations of the segment and the physical location of the asset.

2 Profit and loss information

(a) Significant items

Loss for the half-year includes the following items that are unusual because of their incidence:

	Six-Month Period HK\$' 000	Six months ended 30th June 2018 HK\$' 000
Gains		
Reversal of provision on trade receivables	—	155
Expenses		
Provision on inventories	—	507
Write off of trade receivables	1,114	—

(b) Income tax

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

3 Dividends

The Directors do not recommend payment of interim dividend for the Six-Month Period (six months ended 30th June 2018: nil).

4 Property, plant and equipment

During the Six-Month Period, the Group acquired property, plant and equipment at a cost of HK\$2,217,000 (six months ended 30th June 2018: HK\$259,000).

5 Borrowings

In October 2018 and May 2019, the Group renewed banking facilities to finance the acquisition of merchandise. The total available amount under these facilities is HK\$69,000,000.

6 Related-party transactions

(a) Key management compensation

Key management compensation amounted to HK\$4,367,000 for the Six-Month Period (six months end 30th June 2018: HK\$4,250,000).

(b) Transactions with other related parties

The following transactions occurred with related parties:

	Six-Month Period HK\$'000	Six months ended 30th June 2018 HK\$'000
<i>Sale and purchases of goods and services</i>		
Sale of goods to an entity controlled by key management personnel	508	39
Sale of goods to a restaurant owned by a child of key management personnel	2	—
Purchases of goods from an entity controlled by key management personnel	406	31
Entertainment expenses paid to a restaurant owned by a child of key management personnel	—	11
<i>Other transaction</i>		
Operating lease payments to an executive Director	—	688
Short-term lease payments to an executive Director	117	—
Finance charge payments to an executive Director	43	—
(c) Current payables to related parties		
Bonus to executive Directors	—	522
Lease liabilities to an executive Director	1,630	—
Proportional accrual of additional thirteenth month salary to executive Directors	322	—
	322	—

(d) **Terms and conditions**

Short-term lease and finance charge payments were paid to an executive Director, José Manuel dos Santos, on normal commercial terms and conditions.

The payables bore no interest.

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. Sales of services were negotiated with related parties at terms determined and agreed by both parties and carried out in the normal course of business. Goods were bought from an entity controlled by key management personnel on normal commercial terms and conditions.

7 **Fair value measurement of financial instruments**

This note provides an update on the judgements and estimates made by the Group in determining the fair value of the financial instruments since the last annual financial report.

(a) **Fair value hierarchy**

To provide an indication about the reliability of the inputs used in determining fair value, the Group classified its financial instruments into the two levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the financial assets of the Group measured and recognised at fair value as at 30th June 2019 and 31st December 2018 on a recurring basis:

	30th June 2019	31st December 2018
	Level one HK\$'000	Level one HK\$'000
Financial assets at FVOCI		
Debt investments	68,249	46,274

The policy of the Group is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30th June 2019.

Level one: The fair value of financial instruments traded in active markets (such as publicly traded derivatives) was based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group was the current bid price. These instruments were included in level one.

Level three: The fair value of financial instruments that were not traded in an active market was determined using valuation techniques. If one or more of the significant inputs required to fair value an instrument was not based on observable market data, the instrument was included in level three. This was the case for unlisted equity securities.

(b) Valuation technique used to determine fair values

Discounted cash flow analysis was used to value unlisted equity securities.

The resulting fair value was included in level three, where the fair value was determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

(c) Fair value of other financial instruments (unrecognised)

The Group also has a number of financial instruments which are not measured at fair value in the balance sheet. For the majority of these instruments, the fair values are not materially different to their carrying amounts, since the interest receivable/payable is either close to current market rates or the instruments are short-term in nature.

(d) 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 2019 and 31st December 2018, the ageing analysis of the trade receivables based on invoice date was as follows:

	30th June 2019 HK\$' 000	31st December 2018 HK\$' 000
Within three months	52,376	101,205
>Three months but ≤ six months	6,770	2,764
>Six months but ≤ twelve months	875	383
Over twelve months	15,422	17,027
	<hr/>	<hr/>
Gross trade receivables	75,443	121,379
	<hr/> <hr/>	<hr/> <hr/>

(e) **Trade and bills payables**

As at 30th June 2019 and 31st December 2018, the ageing analysis of the trade and bills payables based on invoice date was as follows:

	30th June 2019 HK\$'000	31st December 2018 HK\$'000
Within three months	71,972	56,071
> Three months but ≤ six months	8,438	945
> Six months but ≤ twelve months	2,630	1,127
Over twelve months	1,186	1,465
	84,226	59,608

8 Basis of preparation of half-year report

This condensed consolidated interim financial report for the Six-Month Period was prepared in accordance with HKAS 34 *Interim Financial Reporting*. It was reviewed by the audit committee of the Company and was not audited.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31st December 2018 and any public announcements made by the Company during the Six-Month Period.

The accounting policies adopted were consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new standard as set out below.

New and amended standard adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies as a result of adopting HKFRS 16 *Leases*.

The impact of the adoption of the leasing standard and the new accounting policies are disclosed in note 9 below. The other standards did not have any impact on the accounting policies of the Group and did not require retrospective adjustments.

9 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 on the financial statements of the Group and also discloses the new accounting policies that have been applied from 1st January 2019 in note (b) below.

The Group adopted HKFRS 16 retrospectively from 1st January 2019, but did not restate comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules were therefore recognised in the opening balance sheet as at 1st January 2019.

(a) Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the lessee as at 1st January 2019. The weighted average incremental borrowing rate of the lessee applied to the lease liabilities on 1st January 2019 was 5.1%.

The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	2019 HK\$' 000
Operating lease commitments disclosed as at 31st December 2018	3,505
(Less): short-term leases recognised on a straight-line basis as expense	(949)
	2,556
Lease liability recognised as at 1st January 2019	2,556
Of which were:	
Current lease liabilities	1,404
Non-current lease liabilities	1,152
	2,556

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets related to properties.

(i) Impact on segment disclosures

Adjusted EBITDA, segment assets and segment liabilities for June 2019 all increased as a result of the change in accounting policy. Lease liabilities are now included in segment liabilities. All segments were affected by the change in policy.

(ii) Practical expedients applied

In applying HKFRS 16 for the first time, the Group used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than twelve months as at 1st January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Hong Kong (IFRIC) Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(b) The leasing activities of the Group and how these were accounted for

The Group leased various offices and a warehouse. Rental contracts were typically made for fixed periods of six months to five years. Lease terms were negotiated on an individual basis and contained a wide range of different terms and conditions. The lease agreements did not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1st January 2019, leases were recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset was depreciated over the shorter of the useful life of the asset and the lease term on a straight-line basis.

Assets and liabilities arising from a lease was initially measured on a present value basis. Lease liabilities included the net present value of the fixed payments (including in-substance fixed payments), less any lease incentives receivable.

The lease payments were discounted using the interest rate implicit in the lease. If that rate could not be determined, the incremental borrowing rate of the lessee was used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets were measured at cost comprising the amount of the initial measurement of lease liability.

Payment associated with short-term leases were recognised on a straight-line basis as an expense in profit or loss. Short-term leases were leases with a lease term of twelve months or less.

10 Seasonality of operations

The business is not subject to seasonal fluctuations.

BUSINESS REVIEW

Business in Macao, Hong Kong and Mainland China

In Macao, with gaming remains 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, total gross revenue generated from different gaming activities for the Six-Month Period reached HK\$168,643,723,000, trailing behind the same period of 2018 of HK\$170,183,228,000 by a mere 0.90%. As raised by gaming operators, there are a number of uncertainties overshadowing the gaming sector, among which included escalating tensions between USA and PRC with their trade talks.

Despite market uncertainties and the Group losing a key gaming customer, during the Six-Month Period, the Group successfully secured from a major gaming operator multiple contracts, with value over HK\$25,000,000, to supply and install surveillance edge devices for one of its premises currently under renovation. Another major milestone achieved by the Group during the Six-Month Period was the successful penetration into a gaming operator (where the Group has very limited business dealings in the past) and becomes their designated surveillance system integrator to supply and install a surveillance system, together with the underlying data networks infrastructure, at their new integrated resort on Cotai, that is currently under construction. As previously mentioned in our first quarter results announcement, this award is of great significance to the Group as this gaming operator does not only offer potential strong business prospects for the Group, it is the last standing major gaming operator that has yet to extend its reach from Macao peninsula to institute a major footprint in Cotai. With all these key wins, the order book of the Group reached over HK\$350,000,000 as at 30th June 2019. Referencing to the average annual worth of contracts signed by the Group during the past four years, total contracts signed during the Six-Month Period reached over 70%. In addition to a strong order book, work in progress during the Six-Month Period also included a handful of contracts that the Group secured during the last quarter of 2018, among which included the Phase Two contract worth HK\$42,000,000 for the supply and installation of traffic detection system (which involved the provision of innovative smart cameras and traffic management of intelligent transportation system) at different road junctions for the Transport Bureau under the Government of Macao. While the order book of the Group is encouraging, worth noting is that the overall operating margins achieved in these contracts have been weakened as a result of increasing market competition due to fewer jobs in the market.

As for MDL, business have been slow during the initial months of any year as many projects from the Government of Macao are still in the planning or tendering stage. For 2019, the Group noticed another visible delay in the rollout of a number of projects from the Government of Macao as 2019 is the year where a new Chief Executive will take office, which could potentially result in some changes to the existing cabinet of secretaries. Therefore, during the Three-Month Period, in addition to continuing to focus on the Government of Macao where different contracts for the delivery of solutions in the areas of servers, storage, networks, customised software and maintenance support services being awarded from Financial Service Bureau, Judiciary Police, Macao Foundation, to name a few, MDL also geared its marketing effort towards different vertical markets, securing different contracts from banks, educational institutions, hotel operators and supermarkets.

In Mainland China, in support of the road map of a local leading provider of Internet value added services as it develops network infrastructure in countries to support “The Belt and Road Initiative”, during the Six-Month Period, the Group received multiple contracts from this leading provider of Internet value added services to expand its data centre in Hong Kong, with total value of the contracts reached over HK\$14,000,000. Regarding the operating performance of TSTSH and TSTJX, it has remained stagnant during the Six-Month Period with only approximately HK\$2,000,000 of new contracts added to its order book. More effort of the Group will be focused on TSTSH and TSTJX to improve their business performance.

Other Investments – TTSA

The operating performance of TTSA seemed to have continued to stabilise. During the Six-Month Period, although TTSA reported revenue of HK\$94,913,000, which represented a decline of 13.63% as compared to the same corresponding period of 2018, EBITDA only experienced a 7.07% drop from HK\$41,061,000 to HK\$38,157,000 while net loss narrowed considerably from HK\$45,841,000 to HK\$27,095,000.

During the Three-Month Period, there is no update regarding the disposal of the shareholding of Oi in TTSA. The Group will continue to keep close watch of any latest developments as a result of the new election.

Financial Review

Contrary to a traditional slow first quarter, the Group reported a stronger Three-Month Period with revenue of HK\$111,470,000 booked, representing an increase of HK\$15,806,000 or 16.52% over the corresponding three months of 2018. Total revenue for the Six-Month Period reached HK\$188,994,000, or an increase of 5.28% over the initial six months of 2018 of HK\$179,512,000. During the Three-Month Period, with a more balanced product mix comprising of sale of equipment and provision of installation and maintenance support services, the latter of which

carries higher gross margin, the Group generated gross profit of HK\$31,298,000, which translated to gross profit margin of 28.08% and improving overall gross profit margin of the Group for the Six-Month Period to 22.87% as a result. To support the works associated with the provision of installation and maintenance support services, the Group engaged labour on a short-term basis, thus resulting in the selling, marketing costs and administrative expenses to increase from HK\$25,571,000 for the three months ended 30th June 2018 to HK\$28,036,000 for the Three-Month Period. With a stronger quarter, the Group reported net profit of HK\$4,968,000 for the Three-Month Period with net loss for the Six-Month Period narrowed to HK\$7,045,000 from the initial first quarter of HK\$12,013,000.

The Group continued to enjoy a healthy capital structure with minimum leverage on external borrowing. Level of inventories hiked up considerably from HK\$18,120,000 as at 31st December 2018 to HK\$52,906,000 as at 30th June 2019 as the Group stocked up the necessary equipment to support various contracts, in particular those pertained to the supply and installation of surveillance edge devices for a major gaming operator for one of their premises currently under renovation and also the contract from another major gaming operator to supply and install a surveillance system, together with the underlying data networks infrastructure, at their new integrated resort on Cotai that is currently under construction. With the surge of inventories, a corresponding increase of trade and bills payables was observed, with its total increased from HK\$59,608,000 as at 31st December 2018 to HK\$84,226,000 as at 30th June 2019.

With the restructuring to the back office team made during 2018, which resulted in an improved workflow, the Group continued to benefit from this restructuring with further improvement witnessed in the recovery of its receivables. Trade receivables reduced from HK\$107,120,000 as at 31st December 2018 to HK\$61,562,000 as at 30th June 2019.

With an improvement to its recovery of receivables, total net cash balances and yield-enhanced financial instruments increased from HK\$133,562,000 as at 31st December 2018 to HK\$160,919,000 as at 30th June 2019, representing approximately 41.52% of total assets. As at 30th June 2019, financial assets of HK\$78,486,000 comprised primarily of investments in yield-enhanced financial instruments. Among the bond holdings were HK\$4,442,000 from The Bank of East Asia, Limited (a company incorporated in Hong Kong with limited liability and whose ordinary shares are listed on the Main Board), HK\$4,121,000 from Crédit Agricole S.A. (a company incorporated in the French Republic with limited liability and whose ordinary shares of €3 each are listed on Euronext Paris) and HK\$4,099,000 from a subsidiary of NWS Holdings Limited (a company incorporated in Bermuda with limited liability and whose ordinary shares of HK\$1 each are listed on the Main Board). Despite the comfortable cash position of the Group, to support business expansion and to reserve cash as working capital, the Directors do not recommend an interim dividend for the Six-Month Period.

OTHER DISCUSSIONS

Employees' Information

As at 30th June 2019, the Group had 224 employees, of which 85, 12 and 127 employees were based in Mainland China, Hong Kong and Macao respectively. Employee costs totalled HK\$34,302,000.

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

The Group did not have any significant capital commitments and significant investments.

Charges on Group Assets

As at 30th June 2019, bank deposit of HK\$33,569,000 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\$, Pataca (the lawful currency of Macao), United States Dollar (the lawful currency of USA) and Renminbi (the lawful currency of Mainland China). The Group incurred net foreign exchange losses of HK\$110,000 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 2019:

	HK\$' 000
José Manuel dos Santos	5,199
Kuan Kin Man	1,431
Monica Maria Nunes	1,743

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 2019, 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		Approximate % of the issued share capital of the Company
			(in respect of Options held)		
José Manuel dos Santos	Corporate (Note 1)	357,945,500	–	58.26	
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:

- 1 As at 30th June 2019, 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 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.
- 3 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.
- 4 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.
- 5 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.
- 6 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.

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 2019, 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)	357,945,000	58.26
OHHL	Corporate (Note 1)	357,945,000	58.26
Lei Hon Kin	Family (Note 2)	357,945,500	58.26

Notes:

- 1 As at 30th June 2019, 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 2019 under the Scheme are as follows:

	Number of Options			Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	held as at 1st January 2019	cancelled during the Six-Month Period	held as at 30th June 2019				
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				0.305	27th September 2016	28th September 2016	27th September 2019
Kuan Ieng Cheok	30,000	-	30,000	0.305	27th September 2016	28th September 2016	27th September 2019
Continuous contract employees	23,790,000	(302,000)	23,488,000	0.305	27th September 2016	28th September 2016	27th September 2019
Others	508,000	-	508,000	0.305	27th September 2016	28th September 2016	27th September 2019
	<u>27,448,000</u>	<u>(302,000)</u>	<u>27,146,000</u>				

COMPETING BUSINESS

As at 30th June 2019, 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
“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)
“FVOCI”	fair value through OCI
“GEM”	GEM 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
“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, Hong Kong (IFRIC) Interpretation, 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
“OCI”	other comprehensive income
“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

“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
“Six-Month Period”	six months ended 30th June 2019
“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 2019
“TSTJX”	泰思通軟件(江西)有限公司, incorporated in PRC with limited liability and an indirect subsidiary of the Company
“TSTSH”	泰思通軟件(上海)有限公司, incorporated in PRC with limited liability and an indirect subsidiary of the Company
“TTSA”	Timor Telecom, S.A., a company incorporated in the Democratic Republic of Timor-Leste with limited liability
“USA”	The United States of America
“€”	Euro, the lawful currency of the euro area

By order of the Board
José Manuel dos Santos
Chairman

Macao, 12th August 2019

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

This announcement, 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 announcement 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.

* for identification purpose only