



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

2020

* *for identification purpose only*

Characteristics of GEM

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Given that the companies listed on GEM are generally small and mid-sized companies, 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

- With business activities severely interrupted by the COVID-19 pandemic, yet riding on the strong order book carried forward from 2019, the Group registered revenue of HK\$173,286,000 for the Six-Month Period, or a mere decrease of 8.31% as compared to the corresponding period of 2019 of HK\$188,994,000
- As the Group commenced the installation works of a major surveillance project for a gaming operator at its new integrated resort in Cotai, which carries higher margin, gross profit margin slightly improved to 23.06%
- Continued to mobilise excess capacity to take up site works that would have been outsourced in the past, hence loss narrowed from HK\$5,169,000 for the first quarter of 2020 to HK\$2,768,000 for the Three-Month Period while loss for the Six-Month Period slightly increased to HK\$7,937,000 from the corresponding period of 2019 of HK\$7,045,000
- With business activities interrupted by the pandemic and shadowed by escalating tensions between PRC and USA, coupled with political turbulence in Hong Kong, total contracts generated from Macao, Hong Kong and Mainland China all suffered a decline for the Six-Month Period
- The Group continues to enjoy a solid and healthy capital structure with no external borrowings and with cash and cash equivalents and yield-enhanced financial instruments totalled HK\$152,524,000 as at 30th June 2020. Equity base stood at HK\$183,072,000
- The Directors do not recommend payment of an interim dividend for the Six-Month Period

INTERIM RESULTS

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

Condensed consolidated statement of profit or loss

	Notes	Unaudited			
		Three-Month Period 2019 HK\$' 000	Three months ended 30th June 2019 HK\$' 000	Six-Month Period 2019 HK\$' 000	Six months ended 30th June 2019 HK\$' 000
Revenue	1	83,022	111,470	173,286	188,994
Cost of sales of goods		(35,398)	(66,244)	(93,746)	(118,757)
Cost of providing services		(25,659)	(13,928)	(39,577)	(27,019)
Gross profit		21,965	31,298	39,963	43,218
Selling, marketing costs and administrative expenses		(26,406)	(28,036)	(50,556)	(53,318)
Other gains		783	569	937	806
Operating (loss)/profit	2(a)	(3,658)	3,831	(9,656)	(9,294)
Finance income		924	1,170	1,786	2,309
Finance costs		(31)	(28)	(64)	(55)
Finance income - net		893	1,142	1,722	2,254
(Loss)/profit before income tax		(2,765)	4,973	(7,934)	(7,040)
Income tax expense	2(b)	(3)	(5)	(3)	(5)
(Loss)/profit for the quarter/half-year		(2,768)	4,968	(7,937)	(7,045)
(Loss)/profit is attributable to:					
Owners of the Company		(2,958)	5,334	(7,447)	(5,982)
NCI		190	(366)	(490)	(1,063)
		(2,768)	4,968	(7,937)	(7,045)
(Loss)/earnings per Share for (loss)/profit attributable to the ordinary equity holders of the Company (expressed in HK cents per Share)					
Basic and diluted (loss)/earnings per Share	10	(0.48)	0.87	(1.21)	(0.97)

Condensed consolidated statement of comprehensive income

	Unaudited	
	Six-Month Period HK\$' 000	Six months ended 30th June 2019 HK\$' 000
Loss for the half-year	<u>(7,937)</u>	<u>(7,045)</u>
(Other comprehensive expense)/OCI:		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of debt instruments at FVOCI	(2,751)	3,091
Exchange differences on translation of operations in Mainland China	<u>127</u>	<u>(105)</u>
(Other comprehensive expense)/OCI for the half-year, net of tax	<u>(2,624)</u>	<u>2,986</u>
Total comprehensive expense for the half-year	<u>(10,561)</u>	<u>(4,059)</u>
Total comprehensive expense for the half-year is attributable to:		
Owners of the Company	(10,071)	(2,996)
NCI	<u>(490)</u>	<u>(1,063)</u>
	<u>(10,561)</u>	<u>(4,059)</u>

Condensed consolidated balance sheet

		Unaudited	Audited
		30th June	31st December
		2020	2019
	Notes	HK\$' 000	HK\$' 000
ASSETS			
Non-current assets			
Property, plant and equipment	4	3,311	3,788
Right-of-use assets		1,907	2,602
Financial assets at FVOCI	7(a)	69,089	43,174
		<hr/>	<hr/>
Total non-current assets		74,307	49,564
		<hr/>	<hr/>
Current assets			
Inventories		18,054	31,846
Contract assets		36,460	57,453
Trade receivables	7(d)	49,581	124,812
Other receivables, deposits and prepayments		52,525	54,590
Financial assets at FVOCI	7(a)	2,272	–
Cash and cash equivalents		81,163	64,263
		<hr/>	<hr/>
Total current assets		240,055	332,964
		<hr/>	<hr/>
Total assets		314,362	382,528
		<hr/>	<hr/>
LIABILITIES			
Non-current liabilities			
Lease liabilities		897	1,033
		<hr/>	<hr/>

		Unaudited	Audited
		30th June	31st December
		2020	2019
Notes		HK\$' 000	HK\$' 000
Current liabilities			
	7(e)	45,219	101,616
		19,198	22,187
		48,521	46,551
		6,144	–
		10,244	10,364
		1,067	1,617
		<u>130,393</u>	<u>182,335</u>
		131,290	183,368
		<u>183,072</u>	<u>199,160</u>
Net assets			
EQUITY			
		61,570	61,570
		143,471	145,478
		(17,561)	(3,970)
		<u>187,480</u>	<u>203,078</u>
		(4,408)	(3,918)
		<u>183,072</u>	<u>199,160</u>

Condensed consolidated statement of changes in equity

	Unaudited					
	Attributable to owners of the Company					
	Share capital and share premium HK\$' 000	Other reserves HK\$' 000	Retained earnings/ (accumulated losses) HK\$' 000	Total HK\$' 000	NCI HK\$' 000	Total equity HK\$' 000
Balance as at 1st January 2019	61,570	142,341	3,529	207,440	(1,838)	205,602
Total comprehensive expense for the half-year	—	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	<u>61,570</u>	<u>145,327</u>	<u>(5,525)</u>	<u>201,372</u>	<u>(2,901)</u>	<u>198,471</u>
Balance as at 1st January 2020	61,570	145,478	(3,970)	203,078	(3,918)	199,160
Total comprehensive expense for the Six-Month Period	—	(2,624)	(7,447)	(10,071)	(490)	(10,561)
Transactions with owners in their capacity as owners:						
Dividend provided for or paid	—	—	(6,144)	(6,144)	—	(6,144)
Scheme – value of services	—	617	—	617	—	617
	—	617	(6,144)	(5,527)	—	(5,527)
Balance as at 30th June 2020	<u>61,570</u>	<u>143,471</u>	<u>(17,561)</u>	<u>187,480</u>	<u>(4,408)</u>	<u>183,072</u>

Condensed consolidated statement of cash flows

		Unaudited	
		Six-Month Period HK\$' 000	For the six months ended 30th June 2019 HK\$' 000
Note			
	Cash flows from operating activities		
	Cash generated from operations	47,280	24,837
	Income taxes paid	(3)	(5)
	Net cash inflow from operating activities	<u>47,277</u>	<u>24,832</u>
	Cash flows from investing activities		
	Payments for property, plant and equipment	(311)	(2,217)
	Payments for financial assets at FVOCI	(38,433)	(47,775)
	Payments for financial assets at amortised cost	–	(10,237)
	Proceeds from sale/redemption of financial assets at FVOCI	7,312	28,893
	Proceeds from redemption of financial assets at amortised cost	–	7,400
	Interest received on financial assets held as investments	1,786	2,309
	Net cash outflow from investing activities	<u>(29,646)</u>	<u>(21,627)</u>
	Cash flows from financing activities		
	Principal elements of lease payments	(731)	(682)
	Increase in restricted bank deposits	–	(33,569)
	Net cash outflow from financing activities	<u>(731)</u>	<u>(34,251)</u>
	Net increase/(decrease) in cash and cash equivalents	16,900	(31,046)
	Cash and cash equivalents at the beginning of the half-year	<u>64,263</u>	<u>79,888</u>
	Cash and cash equivalents at end of the half-year	<u>81,163</u>	<u>48,842</u>
	Cash and cash equivalents comprised:		
	Bank overdrafts	–	(22)
	Cash and banks	81,163	48,864
	Cash and cash equivalents	<u>81,163</u>	<u>48,842</u>

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 2019, 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	Hong Kong	CNMS	Total
	China	and Macao		
	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000
Revenue from external customers	20,629	148,713	3,944	173,286
Adjusted EBITDA	(1,006)	(6,820)	96	(7,730)
Six months ended 30th June 2019				
Revenue from external customers	22,853	162,336	3,805	188,994
Adjusted EBITDA	(1,368)	(5,450)	(858)	(7,676)
Total segment assets (exclude financial assets at FVOCI)				
30th June 2020	15,762	215,163	12,076	243,001
31st December 2019	19,466	307,313	12,575	339,354

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 adjusted EBITDA to loss before income tax is provided as follows:

	Six-Month Period HK\$' 000	Six months ended 30th June 2019 HK\$' 000
Total adjusted EBITDA	(7,730)	(7,676)
Dividend income	-	115
Depreciation - property, plant and equipment	(801)	(1,113)
Depreciation - right-of-use assets	(970)	(623)
Finance income - net	1,722	2,254
Gain on disposal of financial assets at FVOCI	138	126
Impairment loss of financial assets at FVOCI	(293)	(123)
	<u>(7,934)</u>	<u>(7,040)</u>
Loss before income tax	(7,934)	(7,040)

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 2019 HK\$' 000
Expenses		
Write off of trade receivables	–	1,114
Options granted to Directors and employees	617	–

(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 2019: nil).

4 Property, plant and equipment

During the Six-Month Period, the Group acquired property, plant and equipment at a cost of HK\$311,000 (six months ended 30th June 2019: HK\$2,217,000).

5 Borrowings

In May and July 2020, the Group renewed banking facilities to finance the acquisition of merchandise. The total available amount under these facilities is HK\$59,000,000.

6 Related-party transactions

(a) Key management compensation

Key management compensation amounted to HK\$4,650,000 for the Six-Month Period (six months ended 30th June 2019: HK\$4,367,000).

(b) Transactions with other related parties

The following transactions occurred with related parties:

	Six-Month Period HK\$' 000	Six months ended 30th June 2019 HK\$' 000
<i>Sale and purchases of goods and services</i>		
Sale of goods to an entity controlled by key management personnel	303	508
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

Other transaction

During the Six-Month Period, an executive Director was entitled to receive HK\$702,000 (six months ended 30th June 2019: HK\$712,000) from the Group for leasing certain offices to the Group.

(c) Current payables to related parties

	30th June 2020	31st December 2019
Bonus to executive Directors	859	2,404
Lease liabilities to an executive Director	1,290	1,942
Proportional accrual of additional thirteenth month salary to executive Directors	342	–
Dividend payable to ERL	3,579	–
Dividend payable to Directors	248	–
	<u> </u>	<u> </u>

(d) Terms and conditions

Transactions relating to dividend were on the same terms and conditions that applied to other Members.

An executive Director, José Manuel dos Santos, received his rental income on normal commercial terms and conditions.

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. 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 2020 and 31st December 2019 on a recurring basis:

	30th June 2020	31st December 2019
	Level one	Level one
	HK\$' 000	HK\$' 000
Financial assets at FVOCI		
Debt investments	71,361	43,174

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 2020.

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 estimate 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 had a number of financial instruments which were not measured at fair value in the balance sheet. For the majority of these instruments, the fair values were not materially different to their carrying amounts, since the interest receivable/payable was either close to current market rates or the instruments were 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 2020 and 31st December 2019, the ageing analysis of the trade receivables based on invoice date was as follows:

	30th June 2020 HK\$' 000	31st December 2019 HK\$' 000
Within three months	37,165	93,826
>Three months but ≤ six months	6,042	29,003
>Six months but ≤ twelve months	5,808	1,435
Over twelve months	13,708	14,075
	<hr/>	<hr/>
Gross trade receivables	62,723	138,339
	<hr/> <hr/>	<hr/> <hr/>

(e) **Trade and bills payables**

As at 30th June 2020 and 31st December 2019, the ageing analyses of the trade and bills payables based on invoice date were as follows:

	30th June 2020 HK\$'000	31st December 2019 HK\$'000
Within three months	43,002	91,276
> Three months but ≤ six months	493	1,542
> Six months but ≤ twelve months	–	6,919
Over twelve months	1,724	1,879
	45,219	101,616

8 Basis of preparation of half-year report

This condensed consolidated interim financial report for the Six-Month Period was prepared in accordance with Hong Kong Accounting Standard 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 2019 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 and amended standards. A number of new or amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

9 Seasonality of operations

The business is not subject to seasonal fluctuations.

10 Loss per Share

(a) Basic loss per Share

Basic loss per Share was calculated by dividing:

- the loss attributable to owners of the Company
- by the weighted average number of Shares outstanding during the Six-Month Period.

(b) Loss used in calculating loss per Share

	Six-Month Period HK\$' 000	Six months ended 30th June 2019 HK\$' 000
Loss attributable to ordinary equity holders of the Company used in calculating basic loss per Share	<u><u>(7,447)</u></u>	<u><u>(5,982)</u></u>

(c) Weighted average number of Shares used as the denominator

	Six-Month Period HK\$' 000	Six months ended 30th June 2019 HK\$' 000
Weighted average number of Shares used as the denominator in calculating basic loss per Share (thousands)	<u><u>614,435</u></u>	<u><u>614,435</u></u>

(d) Diluted loss per Share

Diluted loss per Share was calculated by adjusting the weighted average number of Shares outstanding to assume conversion of all dilutive potential Shares. For the Six-Month Period and the six months ended 30th June 2019, the computation of diluted loss per Share did not assume that outstanding Options since their exercise would reduce loss per Share.

BUSINESS REVIEW

Business in Macao, Hong Kong and Mainland China

Macao, Hong Kong and Mainland China remain the core operating markets of the Group, with business growth riding on the gaming industry and expansion of regional and international telecommunications and Internet service providers. During the Six-Month Period, not only have these markets been severely impacted by the COVID-19 pandemic, in particular during February and March where all business activities were in a virtual standstill, business activities in Mainland China and Hong Kong have been shadowed by escalating tensions with USA and political turbulence respectively. Consequently, total contracts generated from these three markets all suffered a decline for the Six-Month Period as compared to the same period of 2019.

As the core economic pillar, gaming has been supporting much of the local business activities in Macao. With local residents of Macao contributing a minute percentage of the whole gaming pie, the flourishing of the gaming industry has, in the past, relied strongly on incoming visitors, especially from Mainland China. To contain the COVID-19 pandemic, different governments, including Macao, Hong Kong and Mainland China, have imposed travelling and entry restrictions, triggering a strong deterrent effect in both essential and non-essential travelling. Coupled with the suspension of individual visitor scheme and group tour schemes from Mainland China, the biggest source of tourists to Macao, visitation to Macao fell significantly. According to the official statistics from the Government of Macao, total gross revenue generated from different gaming activities for the Six-Month Period amounted to HK\$33,690,000,000, trailing behind the same period of 2019 of HK\$144,937,000,000 by approximately 77%. If excluding the gross revenue generated in January (i.e. pre-pandemic), total gross revenue from February to June amounted to a mere HK\$11,240,000,000, or a drop of over 90% as compared to the same five-month period of 2019 of HK\$120,757,000,000.

With COVID-19 instantaneously and severely hampered the investment appetite of different gaming operators, VHL, where over 40% of its business derived from gaming, has been adversely impacted. Since February, the Group witnessed capital programmes of different gaming operators considerably shrank to only mandated spending, such as to meet gaming regulations, hence total contracts secured by VHL declined around 63% for the Six-Month Period as compared to the same period of 2019. The drop was even more pronouncing as during the first quarter of 2019, the Group secured a major surveillance project from a gaming operator to supply and install a surveillance system, together with the underlying data networks, at its new integrated resort in Cotai, Macao.

Acknowledging the impact to the gaming industry and to uphold the activities of the economy, the Government of Macao has significantly accelerated its public spending since April. MDL, which is strategically positioned to support the Government of Macao, saw a 46% increase in total contracts secured for the Six-Month Period as compared to the same period of 2019, with growth witnessed across networks infrastructure, servers and storage, firewall and maintenance services. With the growth experienced by MDL, which offset some of the adverse business impact of VHL, aggregate of contracts signed by VHL and MDL during the Six-Month Period declined by just approximately 40% to HK\$158,000,000.

In Hong Kong, under the shadow of both the pandemic and political turbulence, total contracts secured during the Six-Month Period reduced by around 43% to approximately HK\$16,000,000 as compared to the same period of 2019. Weaknesses experienced across business activities for both networks and SD-WAN infrastructure as telecommunications service providers played cautiously with their domestic expansion and more importantly, regional expansion.

In Mainland China, total contracts secured also reported a drop by approximately 34%. Business activities for networks infrastructure from telecommunications service providers experienced setback as the pandemic and escalating tensions between PRC and USA curbed their appetites for aggressive international expansion. On the contrary, for domestic demand, total contracts for SD-WAN infrastructure from different leading network communication services providers and Internet service providers grew approximately 45% for the Six-Month Period as compared to the corresponding six months in 2019. Growth in the AI-driven wireless Wi-Fi solution that the Group commenced to promote during 2019 was also observed, with approximately HK\$5,000,000 of contracts secured during the Six-Month Period.

Regarding 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 indirect subsidiaries of the Company), post-pandemic recovery remained slow with less than HK\$3,000,000 secured during the Six-Month Period from telecommunication services providers in the provinces of Jiangxi and Hebei and the municipality of Chongqing.

Other Investments – TTSA

The operating performance of TTSA has also been affected by the pandemic. Revenue and EBITDA dropped from HK\$47,000,000 and HK\$16,226,000 respectively for the first quarter of 2020 to HK\$41,207,000 and HK\$11,841,000 respectively for the Three-Month Period, while net losses widened on a quarter-to-quarter basis of 2020 from HK\$5,613,000 to HK\$8,985,000.

There is no news regarding the development about 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, in the disposal of the shareholding of its interests in TTSA. The Group will continue to keep close watch of any latest updates.

Financial Review

While business activities for 2020 have been severely interrupted by the COVID-19 pandemic, attributable to a strong order book carried forward from 2019 into the first quarter of the year, the Group registered revenue of HK\$173,286,000 for the Six-Month Period, or a mere decrease of 8.31% as compared to the corresponding period of 2019 of HK\$188,994,000. Since 2019, gross profit margin of the Group has been under visible pressure due to increasing market competition as a result of fewer jobs in a well-matured gaming industry, such market condition further intensified during 2020 due to the pandemic. Nevertheless, as the Group commenced the installation works of a major surveillance project for a gaming operator at its new integrated resort in Cotai (of which the Group secured in 2019), which carries higher margin, gross profit margin slightly improved to 23.06% for the Six-Month Period as compared to 22.87% for the preceding period of 2019.

Salary costs remains the biggest cost element of the Group. During the Three-Month Period, the Group continued to mobilise excess capacity to take up site works that would have been outsourced in the past, resulting in total selling, marketing costs and administrative expenses reduced from HK\$53,318,000 for the six months of 2019 to HK\$50,556,000 for the Six-Month Period. Market conditions have been tough, yet riding on a strong order book carried forward from 2019 and implementing different cost control measures, loss for the period narrowed from HK\$5,169,000 for the first quarter of 2020 to HK\$2,768,000 for the Three-Month Period while loss for the Six-Month Period slightly increased to HK\$7,937,000 from the corresponding period of 2019 of HK\$7,045,000.

The Group continued to enjoy a healthy capital structure with no external borrowing. Level of inventories dropped back to HK\$18,054,000 as at 30th June 2020 as the Group completed over 95% of the delivery of surveillance and networks equipment required under the major surveillance project. Aligned with level of inventories reverting back to the norm, a corresponding decline in trade and bills payables, contract liabilities, contract assets and trade receivables was observed, with the aggregate of trade and bills payables and contract liabilities decreased from HK\$148,167,000 as at 31st December 2019 to HK\$93,740,000 as at 30th June 2020, while aggregate of contract assets and trade receivables reduced from HK\$182,265,000 as at 31st December 2019 to HK\$86,041,000 as at 30th June 2020.

Total equity stood at HK\$183,072,000 as at 30th June 2020 with total net cash balances and yield-enhanced financial instruments at a comfortable level of HK\$152,524,000, or approximately 49% of total assets. As at 30th June 2020, financial assets (current and non-current) of HK\$71,361,000 comprised of corporate bonds. Among the bond holdings were HK\$6,608,000 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\$6,266,000 from Barclays PLC (a company registered in England, UK with limited liability and whose ordinary shares of £0.25 each are listed on the London Stock Exchange in UK) and HK\$5,329,000 from Chong Hing Bank Limited (a company incorporated in Hong Kong with limited liability and whose ordinary shares are listed on the Main Board). Despite comfortable cash position, to weather the Group against the impact of the pandemic and to support business operations, the Directors do not propose an interim dividend to be paid out for the Six-Month Period.

OTHER DISCUSSIONS

Employees' Information

As at 30th June 2020, the Group had 211 employees, of which 73, 17 and 121 employees were based in Mainland China, Hong Kong and Macao respectively. Employee costs totalled HK\$31,578,000.

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

As at 30th June 2020, the Group had significant investments in yield-enhanced financial instruments. Save as disclosed, the Group did not have any significant capital commitments and significant investments.

Charges on Group Assets

As at 30th June 2020, 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 gains of HK\$29,000 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 2020:

	HK\$' 000
José Manuel dos Santos	5,562
Kuan Kin Man	1,505
Monica Maria Nunes	1,815

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

As at 30th June 2020, 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)	357,945,500	–	58.26
Kuan Kin Man	Personal (Note 2)	22,112,500	840,000	3.74
Monica Maria Nunes	Personal (Note 3)	2,452,500	840,000	0.54
Ho Wai Chung Stephen	Personal (Note 4)	–	350,000	0.06
Fung Kee Yue Roger	Personal (Note 5)	210,000	350,000	0.09
Wong Tsu An Patrick	Personal (Note 6)	–	350,000	0.06
Wong Kwok Kuen	Personal (Note 7)	–	350,000	0.06

Notes:

- As at 30th June 2020, 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 840,000 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 840,000 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 Ho Wai Chung Stephen comprised 350,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Ho Wai Chung Stephen as beneficial owner.
- 5 The personal interest of Fung Kee Yue Roger comprised 210,000 Shares and 350,000 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.
- 6 The personal interest of Wong Tsu An Patrick comprised 350,000 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.
- 7 The personal interest of Wong Kwok Kuen comprised 350,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Wong Kwok Kuen 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 2020, 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)	357,945,500	58.26
OHHL	Corporate (Note 1)	357,945,500	58.26
Lei Hon Kin	Family (Note 2)	357,945,500	58.26

Notes:

- 1 As at 30th June 2020, 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 2020 under the Scheme are as follows:

	Number of Options			Subscription Price HK\$	Date of Grant	Exercisable from	Exercisable until
	held as at 1st January 2020	granted during the Six-Month Period (Note)	held as at 30th June 2020				
Directors							
Kuan Kin Man	-	840,000	840,000	0.12	9th April 2020	10th April 2020	9th April 2023
Monica Maria Nunes	-	840,000	840,000	0.12	9th April 2020	10th April 2020	9th April 2023
Ho Wai Chung Stephen	-	350,000	350,000	0.12	9th April 2020	10th April 2020	9th April 2023
Fung Kee Yue Roger	-	350,000	350,000	0.12	9th April 2020	10th April 2020	9th April 2023
Wong Tsu An Patrick	-	350,000	350,000	0.12	9th April 2020	10th April 2020	9th April 2023
Wong Kwok Kuen	-	350,000	350,000	0.12	9th April 2020	10th April 2020	9th April 2023
Director's daughter	-						
Sonia Andreia dos Santos	-	144,000	144,000	0.12	9th April 2020	10th April 2020	9th April 2023
Continuous contract employees	-	16,660,000	16,660,000	0.12	9th April 2020	10th April 2020	9th April 2023
	-	19,884,000	19,884,000				

Note:

As at 8th April 2020, the date before the Options were granted, the market value per Share was HK\$0.12. The value of the Options granted to the respective parties is as follows:

	HK\$' 000
Directors:	
Kuan Kin Man	26
Monica Maria Nunes	26
Ho Wai Chung Stephen	11
Fung Kee Yue Roger	11
Wong Tsu An Patrick	11
Wong Kwok Kuen	11
Director's daughter:	
Sonia Andreia dos Santos	4
Continuous contract employees	517
	<u>617</u>

The value of the Options granted during the Six-Month Period was HK\$617,000, based on the polynomial valuation model. The significant inputs into the model were spot price of HK\$0.12 at the Date of Grant, Subscription Price of HK\$0.12 per Option, volatility of 46.48%, dividend yield of 3.2%, an expected Option life of three years, and an annual risk-free interest rate of 0.64%. The volatility was determined by using the volatility of the stock return of the Company as at valuation date. During the Six-Month Period, an amount of share-based payment expenses of HK\$617,000 was recognised in the income statement for the Options granted to Directors and employees. The measurement date of the value of the Options was the Date of Grant. The fair values calculated are inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of an Option varies with different variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of an Option.

COMPETING BUSINESS

As at 30th June 2020, 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 A non-executive Director and an independent non-executive Director 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 They 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

“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
“Date of Grant”	in respect of an Option and unless otherwise specified in the letter of grant, the day (excluding Saturday and Sunday) on which licensed banks are generally open for business in Hong Kong and the Board resolves to make an Offer to a Participant, whether or not the Offer is subject to Members’ approval on the terms of the Scheme
“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 London Stock Exchange and 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
“Grantee”	Participant who accepts an Offer in accordance with the terms of the Scheme, or (where the context so permits) any person who is entitled to any such Option in consequence of the death of the original Grantee, or the legal personal representative of such person
“Group”	the Company and its subsidiaries

“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“HK cent”	Hong Kong Cent, where 100 HK cents equal HK\$1
“Hong Kong”	the Hong Kong Special Administrative Region of PRC (not applicable to Hong Kong Accounting Standard, Hong Kong Exchanges and Clearing Limited 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
“NCI”	non-controlling interest
“OCI”	other comprehensive income
“Offer”	the offer of the grant of an Option under the Scheme
“OHHL”	Ocean Hope Holdings Limited, a company incorporated in BVI with limited liability
“Option”	an option to subscribe for Shares pursuant to the Scheme

“Participant”	Director (including executive Director, non-executive Director and independent non-executive Director) and an employee of the Group and any advisor, consultant, distributor, contractor, supplier, agent, customer, business partner, joint venture business partner, promoter and service provider of any member of the Group who the Board considers, in its sole discretion, has contributed or will contribute to the Group
“PRC”	The People’s Republic of China
“Scheme”	the share option scheme approved by the Members at the AGM on 22nd June 2012
“SD-WAN”	software-defined networking in a wide area network
“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 2020
“Subscription Price”	the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option under the Scheme
“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 2020
“TTSA”	Timor Telecom, S.A., a company incorporated in the Democratic Republic of Timor-Leste with limited liability
“UK”	The United Kingdom of Great Britain and Northern Ireland
“USA”	The United States of America

“VHL” Vodatel Holdings Limited, incorporated in BVI with limited liability and an indirect wholly-owned subsidiary of the Company

“£” pound sterling, the lawful currency of UK

By order of the Board
Monica Maria Nunes
Deputy Chairman

Macao, 12th August 2020

Executive Directors	Non-executive Director	Independent non-executive Directors
José Manuel dos Santos	Ho Wai Chung Stephen	Fung Kee Yue Roger
Kuan Kin Man		Wong Tsu An Patrick
Monica Maria Nunes		Wong Kwok Kuen

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