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VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

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

- Business momentum hampered by the emergence of confirmed COVID-19 cases in the Guangdong Province in June, various moves of the Central Government to regulate the technology and education arenas and shortage of electronic components that causes upward price adjustments and interruptions to the supply chain of IT products
- Registered revenue of HK\$87,583,000 for the Three-Month Period, or a drop of over 25% from the first quarter of 2021 of HK\$117,197,000. Revenue of HK\$204,780,000 reported for the Six-Month Period, or an increase of 18.17% as compared to the corresponding period of 2020
- For the Three-Month Period, net loss of the Group widened to HK\$6,500,000 as a result of lower gross profit margin and payout of several severance packages, yet due to a stronger first quarter of 2021, net loss of the Group for the Six-Month Period narrowed to HK\$5,337,000
- MDL again being selected to provide support services at the upcoming legislative election in Macao in September
- Total contracts secured by the Mainland China team during the Six-Month Period reached HK\$68,500,000, or approximately 92% of total contracts secured in 2020
- TSTSH and TSTJX sold its enhanced version of its CNMS that featured data analytics and also its first cloud-based version of CNMS, both of which are new additions to the family of solutions of TSTSH and TSTJX
- TTSA posted its first profitable quarter since 2015, with trend back to sustained profitability has yet to be confirmed
- The Group continues to enjoy a solid and healthy capital structure with no external borrowings with cash and cash equivalents and yield-enhanced financial instruments totalled HK\$119,698,000 as at 30th June 2021, or 36.05% of total assets. Equity base stood at HK\$181,585,000
- 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 HK\$'000	Three months ended 30th June 2020 HK\$'000	Six-Month Period HK\$'000	Six months ended 30th June 2020 HK\$'000
Revenue from contracts with customers	1	87,583	83,022	204,780	173,286
Costs of sales of goods		(42,049)	(35,398)	(111,566)	(93,746)
Costs of providing services		(26,447)	(25,659)	(46,209)	(39,577)
Gross profit		19,087	21,965	47,005	39,963
Selling, marketing costs and administrative expenses		(26,568)	(26,406)	(53,742)	(50,556)
Other gains, net		291	783	104	937
Operating loss	2(a)	(7,190)	(3,658)	(6,633)	(9,656)
Finance income		739	924	1,385	1,786
Finance costs		(32)	(31)	(72)	(64)
Finance income – net		707	893	1,313	1,722
Loss before income tax		(6,483)	(2,765)	(5,320)	(7,934)
Income tax expense	2(b)	(17)	(3)	(17)	(3)
Loss for the quarter/half-year		(6,500)	(2,768)	(5,337)	(7,937)
Loss is attributable to:					
Owners of the Company		(5,707)	(2,958)	(3,692)	(7,447)
NCI		(793)	190	(1,645)	(490)
		(6,500)	(2,768)	(5,337)	(7,937)
Loss per Share for loss attributable to the ordinary equity holders of the Company (expressed in HK cents per Share)					
Basic loss per Share	10	(0.93)	(0.48)	(0.60)	(1.21)
Diluted loss per Share	10	(0.92)	(0.48)	(0.60)	(1.21)

Condensed consolidated statement of comprehensive income

	Unaudited	
	Six-month Period HK\$'000	Six months ended 30th June 2020 HK\$'000
Loss for the half-year	(5,337)	(7,937)
Other comprehensive loss:		
<i>Items that may be reclassified to profit or loss</i>		
Changes in the fair value of debt instruments at FVOCI	(2,969)	(2,751)
Exchange differences on translation of operations in Mainland China	(80)	127
Other comprehensive loss for the half-year, net of tax	(3,049)	(2,624)
Total comprehensive loss for the half-year	(8,386)	(10,561)
Total comprehensive loss for the half-year is attributable to:		
Owners of the Company	(6,741)	(10,071)
NCI	(1,645)	(490)
	(8,386)	(10,561)

Condensed consolidated balance sheet

		Unaudited 30th June 2021 HK\$'000	Audited 31st December 2020 HK\$'000
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment	4	2,573	2,944
Right-of-use assets – buildings		2,201	3,070
Financial assets at FVOCI	7(a)	56,123	36,075
Total non-current assets		<u>60,897</u>	<u>42,089</u>
Current assets			
Inventory – systems equipment		9,375	19,808
Prepayment		53,018	46,576
Contract assets		43,350	33,924
Trade receivable	7(d)	79,465	108,574
Other receivables and deposits		22,331	10,287
Financial assets at FVOCI	7(a)	4,229	7,545
Financial assets at FVPL		–	5,929
Cash and cash equivalents		59,346	70,891
Total current assets		<u>271,114</u>	<u>303,534</u>
Total assets		<u>332,011</u>	<u>345,623</u>
LIABILITIES			
Non-current liabilities			
Lease liabilities		797	1,511
Current liabilities			
Trade payable	7(e)	48,831	61,553
Other accounts payable and accruals		25,069	22,546
Contract liabilities		56,554	50,815
Dividend payable		6,144	–
Current tax liabilities		11,548	11,457
Lease liabilities		1,483	1,626
Total current liabilities		<u>149,629</u>	<u>147,997</u>
Total liabilities		<u>150,426</u>	<u>149,508</u>
Net current assets		<u>121,485</u>	<u>155,537</u>
Net assets		<u>181,585</u>	<u>196,115</u>

	Unaudited 30th June 2021 HK\$'000	Audited 31st December 2020 HK\$'000
EQUITY		
Share capital	61,570	61,570
Other reserves	141,817	144,866
Accumulated losses	(16,124)	(6,288)
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Capital and reserves attributable to owners of the Company	187,263	200,148
NCI	(5,678)	(4,033)
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Total equity	181,585	196,115
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Condensed consolidated statement of changes in equity

	Unaudited					
	Attributable to owners of the Company					Total equity HK\$'000
	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	NCI HK\$'000	
Balance as at 1st January 2020	61,570	145,478	(3,970)	203,078	(3,918)	199,160
Total comprehensive loss for the half-year	–	(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)
Share-based payment expenses	–	617	–	617	–	617
	–	617	(6,144)	(5,527)	–	(5,527)
Balance as at 30th June 2020	61,570	143,471	(17,561)	187,480	(4,408)	183,072
Balance as at 1st January 2021	61,570	144,866	(6,288)	200,148	(4,033)	196,115
Total comprehensive loss for the Six-Month Period	–	(3,049)	(3,692)	(6,741)	(1,645)	(8,386)
Transactions with owners in their capacity as owners:						
Dividend provided for or paid	–	–	(6,144)	(6,144)	–	(6,144)
Balance as at 30th June 2021	61,570	141,817	(16,124)	187,263	(5,678)	181,585

Condensed consolidated statement of cash flows

		Unaudited	
		For the six months ended	
		Six-Month Period	30th June 2020
Note		HK\$'000	HK\$'000
Cash flows from operating activities			
	Cash generated from operations	1,629	47,280
	Income taxes paid	(17)	(3)
	Net cash inflow from operating activities	1,612	47,277
Cash flows from investing activities			
	Payments for property, plant and equipment	(191)	(311)
4	Payments for corporate bonds carried at FVOCI	(35,908)	(38,433)
	Proceeds from sale/redemption of corporate bonds carried at FVOCI	16,491	7,312
	Proceeds from sale of financial assets at FVPL	5,929	–
	Interest received on financial assets at FVOCI	1,385	1,786
	Net cash outflow from investing activities	(12,294)	(29,646)
Cash flows from financing activities			
	Principal elements of lease payments	(863)	(731)
	Net cash outflow from financing activities	(863)	(731)
	Net (decrease)/increase in cash and cash equivalents	(11,545)	16,900
	Cash and cash equivalents at the beginning of the half-year	70,891	64,263
	Cash and cash equivalents at end of the half-year	59,346	81,163

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 sale of network and systems infrastructure and provision of 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, 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 2020, 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 HK\$'000	Hong Kong and Macao HK\$'000	CNMS HK\$'000	Total HK\$'000
Revenue from external customers	52,891	144,862	7,027	204,780
Adjusted loss before interest, tax, depreciation and amortisation	(779)	(1,655)	(2,767)	(5,201)
Six months ended 30th June 2020				
Revenue from external customers	20,629	148,713	3,944	173,286
Adjusted loss before interest, tax, depreciation and amortisation	(1,006)	(6,820)	96	(7,730)
Total segment assets (exclude financial assets at FVOCI)				
30th June 2021	21,733	237,110	12,816	271,659
31st December 2020	18,514	264,751	18,738	302,003

The executive Directors primarily used a measure of adjusted EBITDA to assess the performance of the operating segments. However, they also received information about the revenue and assets of the segments on a monthly basis. Adjusted EBITDA excluded the effects of gains or losses on financial instruments.

Interest income and finance costs were not allocated to segments, as this type of activity was driven by the executive Directors, who managed the cash position of the Group.

Adjusted loss before interest, tax, depreciation and amortisation reconciled to loss before income tax as follows:

	Six-Month Period HK\$'000	Six months ended 30th June 2020 HK\$'000
Total adjusted loss before interest, tax, depreciation and amortisation	(5,201)	(7,730)
Depreciation – property, plant and equipment	(551)	(801)
Depreciation – right-of-use assets – buildings	(887)	(970)
Finance income – net	1,313	1,722
Gain on disposal of financial assets at FVOCI	6	138
Provision of loss allowance for financial assets at FVOCI	–	(293)
Loss before income tax	<u>(5,320)</u>	<u>(7,934)</u>

Segment assets were measured in the same way as in the financial statements. These 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 2020 HK\$'000
Expenses		
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 2020: nil).

4 Property, plant and equipment

During the Six-Month Period, the Group acquired property, plant and equipment at a cost of HK\$191,000 (six months ended 30th June 2020: HK\$311,000).

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\$4,689,000 for the Six-Month Period (six months ended 30th June 2020: HK\$4,650,000).

(b) Transactions with other related parties

The following transactions occurred with related parties:

	Six-Month Period HK\$'000	Six months ended 30th June 2020 HK\$'000
<i>Sale and purchases of goods and services</i>		
Sale of goods to an entity controlled by key management personnel	403	303

Other transaction

During the Six-Month Period, an executive Director was entitled to receive HK\$707,000 (six months ended 30th June 2020: HK\$702,000) from the Group for leasing certain offices to the Group.

(c) Current accounts payable to related parties

	30th June 2021 HK\$'000	31st December 2020 HK\$'000
Bonus to executive Directors	–	2,100
Lease liabilities to an executive Director	1,998	2,632
Proportional accrual of additional thirteenth-month salary to executive Directors	342	–
Dividend payable to ERL	3,579	–
Dividend payable to Directors	248	–

(d) Terms and conditions

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

Goods sold during the Six-Month Period were 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 2021 and 31st December 2020 on a recurring basis:

	30th June 2021	31st December 2020
	Level one	Level one
	HK\$'000	HK\$'000
Financial assets at FVOCI		
Debt investments	<u>60,352</u>	<u>43,620</u>

The policy of the Group was to recognise transfers into and 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 2021.

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 receivable

Sales of the Group were on receipts in advance 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 2021 and 31st December 2020, the ageing analysis of the trade receivable based on invoice date was as follows:

	30th June 2021 HK\$'000	31st December 2020 HK\$'000
Within three months	38,858	89,649
>Three months but ≤ six months	21,653	12,752
>Six months but ≤ twelve months	7,366	5,025
Over twelve months	27,260	16,598
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Gross trade receivable	95,137	124,024
	<hr/> <hr/>	<hr/> <hr/>

(e) Trade payable

As at 30th June 2021 and 31st December 2020, the ageing analysis of the trade payable based on invoice date was as follows:

	30th June 2021 HK\$'000	31st December 2020 HK\$'000
Within three months	41,372	56,656
> Three months but ≤ six months	4,873	2,432
> Six months but ≤ twelve months	914	1,347
Over twelve months	1,672	1,118
	<hr/>	<hr/>
	48,831	61,553
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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 2020 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) Diluted loss per Share

Diluted loss per Share adjusted the figures used in the determination of basic loss per Share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential Shares, and
- the weighted average number of additional Shares that would have been outstanding assuming the conversion of all dilutive potential Shares.

(c) Loss used in calculating loss per Share

	Six-Month Period HK\$'000	Six months ended 30th June 2020 HK\$'000
Loss attributable to the ordinary equity holders of the Company used in calculating basic and diluted loss per Share	<u>(3,692)</u>	<u>(7,447)</u>

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

	Six-Month Period Number	Six months ended 30th June 2020 Number
Weighted average number of Shares used as the denominator in calculating basic loss per Share (thousands)	614,435	614,435
Adjustments for calculation of diluted loss per Share – Options (thousands)	<u>3,787</u>	<u>–</u>
Weighted average number of Shares and potential Shares used as the denominator in calculating diluted loss per Share (thousands)	<u>618,222</u>	<u>614,435</u>

(e) Information concerning the classification of securities – Options

Options granted to Directors and employees were considered to be potential Shares. They were included in the determination of diluted loss per Share to the extent to which they were dilutive. The Options were not included in the determination of basic 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. Total contracts secured by the Group during the Six-Month Period amounted to HK\$201,000,000, representing 49.26% of total contracts signed during 2020 of HK\$408,000,000. In addition to the COVID-19 pandemic continuing to be a key factor affecting the operating performance of the Group in each of these markets, other factors that also adversely affect the business momentum and business negotiation process include various moves of the Central Government to regulate the technology and education arenas and shortage of electronic components that cause upward price adjustments and interruptions to the supply chain of IT products.

In Macao, with Mainland China as the only place being a largely quarantine-free travel bubble, the Government of Macao had, during the Three-Month Period, continued to promote the enclave to mainlanders as a safe destination for leisure. With the COVID-19 pandemic remains well under control, Macao registered an increasing number of tourists from Mainland China in 2021, with arriving mainlanders via IVS reaching 336,314 in May 2021 (pre-pandemic level, i.e. January 2020, was 1,113,461 via similar scheme). However, with confirmed COVID-19 cases in the Guangdong Province in June 2021, arriving mainlanders via IVS registered a sharp drop to 120,604 in the same month. Similarly, the monthly gross revenue from games of fortune reported by the Gaming Inspection and Coordination Bureau was HK\$10,126,000,000 in May 2021, which dropped to HK\$6,335,000,000 in June 2021.

Investment appetite of different gaming operators remains cautious. During the first quarter of 2021, capital expenditures of different gaming operators geared mainly towards solutions that assist in the attraction of more customers, rather than on surveillance, data networks and storage and associated professional IT services. Consequently, contracts secured from gaming operators during the first quarter of 2021 related mainly to renewal of warranty and maintenance services. With increasing number of tourists during the Three-Month Period, the Group witnessed the spending pattern of different gaming operators not limited to just renewal of warranty and maintenance services, but on capital expenditures programmes. Of the HK\$30,100,000 worth of contracts secured from different gaming operators on warranty and maintenance services renewal and new projects during the Six-Month Period, HK\$20,200,000 were received during the Three-Month Period. However, with confirmed COVID-19 cases in the Guangdong Province in June 2021, impact to the business momentum was immediate with 1. works confirmed but official purchase orders not yet received being suspended or being requested to revise down the scope of works and/or to provide further discounts, and 2. even works with official purchase orders received being requested to delay work commencement date.

During the Six-Month Period, the Government of Macao and other vertical sectors, such as utilities, hospitals and educational institutions continue to remain some of the key contributors towards the project pipelines of the Group. In the midst of the COVID-19 pandemic, the Government of Macao has been accelerating its public spending since April 2020 by rolling out numerous infrastructure projects. While these infrastructure projects will provide business opportunities to both VHL and MDL in years to come, prior to the tendering of the associated extra-low voltage systems (such as surveillance and IT systems), the Group has been looking up to the general annual spending of the Government of Macao. With the Government of Macao tightening its general annual spending, coupled with upward price adjustments on IT products due to shortage of electronic components, VHL and MDL secured HK\$77,300,000 worth of contracts (directly or indirectly via main contractors appointed by the Government of Macao), which represented only approximately 40% of total contracts secured during 2020. Among the works secured included contracts for networks infrastructure, surveillance systems, servers and storage, firewall, maintenance services and software development for Health Bureau, Statistics and Census Service, Judiciary Police, Government Headquarters Affairs Bureau, Public Security Forces Affairs Bureau, Marine and Water Bureau, to name a few. Worth noting is that MDL is again being selected to provide support services at the upcoming legislative election in Macao in September, which reinforces the position of MDL as a reliable and trusted partner of the Government of Macao.

During the Three-Month Period, the Hong Kong market continued to remain sluggish with less than HK\$20,000,000 of contracts in the areas of data networks infrastructure and SD-WAN secured, representing just approximately of 35% of works secured in 2020.

As for Mainland China, riding on the strong business momentum for SD-WAN and data networks infrastructure from different leading telecommunications service providers, network communication services providers and Internet service providers during the Three-Month Period, the Group continued to experience encouraging results. However, such business momentum has been adversely affected by the various moves of the Central Government to regulate industries such as technology and education and other areas from anti-monopoly practices to cybersecurity to tightened rules on data security. Consequently, during the Three-Month Period, the Mainland China team added just HK\$22,600,000 worth of contracts versus HK\$45,900,000 worth of contracts secured during the first quarter of 2021. Despite the weaker Three-Month Period, total contracts received during the Six-Month Period, covering SD-WAN projects and various projects to build new, or expand existing, data networks infrastructure in data centres for a leading provider of Internet value-added services in different countries, reached HK\$68,500,000, or approximately 92% of total contracts that the Mainland China team secured in 2020.

As for TSTSH and TSTJX, although only HK\$3,700,000 worth of contracts for its CNMS were secured during the Six-Month Period from telecommunication services providers in the provinces of Guangdong, Jiangsu and Hebei and the municipality of Shanghai, those contracts included the enhanced version of its CNMS that featured data analytics and also the first cloud-based version of CNMS, both of which are new additions to their family of solutions.

Other Investments – TTSA

The operating performance of TTSA continued to show positive signs of recovery. Revenue and EBITDA increased from HK\$45,016,000 and HK\$15,407,000 respectively for the second quarter of 2020 to HK\$45,330,000 and HK\$16,851,000 respectively for the Three-Month Period. During the Three-Month Period, TTSA registered a net profit of HK\$2,336,000 as compared to a net loss of HK\$6,345,000 for the same corresponding period of 2020. Although TTSA posted a net profit during the Three-Month Period, which was the first profitable quarter since 2015, it has yet to confirm if the trend back to profitability is sustainable.

Given the current market conditions, it is doubtful that Oi is in any talks regarding the disposal of its shareholding in TTSA. The Group will continue to keep close watch if Oi will instil any moves in this respect.

Financial Review

With the business momentum hampered by the emergence of confirmed COVID-19 cases in the Guangdong Province, various moves of the Central Government to regulate the technology and education arenas and delivery lead time of IT products caused by shortage of electronic components, the Group registered revenue of HK\$87,583,000 for the Three-Month Period, or a drop of over 25% from the first quarter of 2021 of HK\$117,197,000. To remain competitive in current market conditions where there is a lack of ample works, in particular in Macao, the Group has to reduce its gross margin and to absorb partial price hikes from suppliers due to shortage of electronic components. Consequently, gross profit margin dropped from 26.46% in the second quarter of 2020 to 21.79% for the Three-Month Period, resulting in gross profit of only HK\$19,087,000.

Nevertheless, attributable to a stronger first quarter of 2021, the Group reported revenue of HK\$204,780,000 for the Six-Month Period, or an increase of 18.17% as compared to the corresponding period of 2020. With gross profit margins levelling out between the two years, the Group generated gross profit of HK\$47,005,000 for the Six-Month Period, or an increase of 17.62% as compared to the same corresponding period of 2020.

Salary costs remain the biggest cost element of the Group. Since last year, the Group has been relocating its resources across different entities to better utilise its human resources and since the last quarter of 2020 and into 2021, the Group also undertook various measures to streamline its human resources structure. With the need to pay out several severance packages and coupled with higher freight and customs charges as the Group undertook various overseas data networks infrastructure projects for a leading provider of Internet value-added services, total selling, marketing and administrative expenses increased over HK\$3,000,000 during the Six-Month Period as compared to the corresponding period of 2020.

During the Three-Month Period, with a lower gross profit margin and payout of several severance packages, net loss of the Group widened to HK\$6,500,000 from HK\$2,768,000 for the same quarter of 2020. However, with a stronger first quarter of 2021, net loss of the Group for the Six-Month Period narrowed to HK\$5,337,000 from HK\$7,937,000 for the same corresponding period of 2020.

The Group continued to enjoy a healthy capital structure with no external borrowing. Level of inventory dropped to HK\$9,375,000 as at 30th June 2021 from HK\$19,808,000 as at 31st December 2020 as the Group completed all the works associated with the major surveillance project for a gaming operator at its new integrated resort where its soft opening took place in August. As always, the Group focuses on the timely recovery of its receivables, hence aggregate of contract assets and trade receivable reduced from HK\$142,498,000 as at 31st December 2020 to HK\$122,815,000 as at 30th June 2021. Aggregate of trade payable and contract liabilities also decreased from HK\$112,368,000 as at 31st December 2020 to HK\$105,385,000 as at 30th June 2021.

Total equity stood at HK\$181,585,000 as at 30th June 2021 with total net cash balances and yield-enhanced financial instruments at a comfortable level of HK\$119,698,000, or 36.05% of total assets. Despite the comfortable cash position, to weather the Group against the current vulnerable market conditions and to support business operations, the Directors do not recommend payment of an interim dividend for the Six-Month Period.

As at 30th June 2021, financial assets at FVOCI (current and non-current) of HK\$60,352,000 comprised primarily of investments in yield-enhanced financial instruments. Among the bond holdings were HK\$3,737,000 from The Bank of East Asia, Limited (a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board), HK\$3,189,000 from FWD Group Limited (a company incorporated in the Cayman Islands with limited liability) and HK\$3,175,000 from a subsidiary of Hysan Development Company Limited (a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board). On 31st July 2021, which was the maturity date of the CFLD Bond, CFLD was unable to redeem the CFLD Bond held by the Group with a nominal value of US\$200,000 (approximately HK\$1,554,000). The Group also possesses CFLD Bond 2 in a nominal value of US\$500,000 (approximately HK\$3,885,000). As at 11th August 2021, the market values of CFLD Bond and CFLD Bond 2 were HK\$553,000 and HK\$1,390,000 respectively. The Board will continue to watch out for the financial position and restructuring plan of China Fortune in order to adopt the next steps in handling CFLD Bond and CFLD Bond 2.

OTHER DISCUSSIONS

Employees' Information

As at 30th June 2021, the Group had 203 employees, of which 69, 17 and 117 employees were based in Mainland China, Hong Kong and Macao respectively. Employee costs totalled HK\$34,354,000.

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 Directors and 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 2021, 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 2021, 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\$, the pataca (the lawful currency of Macao), US\$ and the renminbi (the lawful currency of Mainland China). The Group incurred net foreign exchange gains of HK\$22,000 during the Six-Month Period.

Change of Directors' emoluments

The amounts payable per annum to Monica Maria Nunes under her service contract have been revised with effect from 1st January 2021 to HK\$1,831,000.

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 2021, 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 2021, 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.
- 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.
- 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.
- 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.
- 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 2021, 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:

- As at 30th June 2021, 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.
- 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 2021 under the Scheme are as follows:

	Number of Options			Exercise price HK\$	Grant date	Exercisable from	Exercisable until
	Held as at 1st January 2021	Lapsed during the Six-Month Period	Held as at 30th June 2021				
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							
	16,490,000	(868,000)	15,622,000	0.12	9th April 2020	10th April 2020	9th April 2023
	<u>19,714,000</u>	<u>(868,000)</u>	<u>18,846,000</u>				

COMPETING BUSINESS

As at 30th June 2021, 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 certain 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 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.

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
“CFLD”	CFLD (Cayman) Investment Ltd., a company incorporated in the Cayman Islands with limited liability and a subsidiary of China Fortune
“CFLD Bond”	interest-bearing instrument of indebtedness issued by CFLD with a coupon rate of 9% per annum and a maturity date of 31st July 2021
“CFLD Bond 2”	interest-bearing instrument of indebtedness issued by CFLD with a coupon rate of 6.92% per annum and a maturity date of 16th June 2022
“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
“China Fortune”	China Fortune Land Development Co., Ltd., a company incorporated in PRC with limited liability and whose shares are listed on Shanghai Stock Exchange
“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 (not applicable to Hysan Development Company 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 Shanghai Stock Exchange and New York Stock Exchange)
“FVOCI”	fair value through other comprehensive income
“FVPL”	fair value through profit or loss
“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 (not applicable to FWD Group Limited)
“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)
“IVS”	the Individual Visit Scheme
“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
“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 B3 S.A. – Brasil, Bolsa, Balcão 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
“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 2021
“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 2021
“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
“US\$”	United States dollar, the lawful currency of USA
“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

By order of the Board
José Manuel dos Santos
Chairman

Macao, 11th August 2021

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