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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 YEAR

- With Mainland China as the main growth engine, total contracts secured by the Group reached HK$574,700,000, which not only represented a 33.44% year-on-year growth, but also back to pre-pandemic level
- Revenue for the Year grew to HK$491,567,000, which represented a 19.00% year-on-year growth over 2021
- Gross profit margin plummeted to 18.31% due to keen competition from scarce works from gaming operators, heated competition from other SD-WAN vendors and managed services and supply of associated server bulk carrying low margins
- With wages and salaries further declined to HK$64,273,000, costs savings achieved via the ESG programme and gain on disposal from disposing a loss-making entity, reported profit before tax of HK$3,441,000 as compared to loss before tax of HK$5,450,000 for the preceding year
- In December 2021, a new subsidiary is setup in Hong Kong, Meta-V, to offer managed services
- Mainland China becomes the most profitable market with an organic year-on-year growth of 95.84%. Total contracts secured reached HK$236,000,000
- Attributable to the revaluation of TTSA, equity base increased to HK$208,296,000 as at 31st December 2022, of which cash and cash equivalents and yield-enhanced financial instruments (including pledged deposit) stood at HK$65,529,000
- The Directors recommend payment of a final dividend of HK$0.01 per Share for the Year

## RESULTS

The Board is pleased to present the consolidated results of the Group for the Year as follows:

### Consolidated statement of profit or loss

| | Notes | **2022** | 2021 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| **CONTINUING OPERATIONS** | | | |
| REVENUE | 2 | **491,567** | 413,079 |
| Cost of sales | | **(401,548)** | (315,530) |
| Gross profit | | **90,019** | 97,549 |
| Other income and gains | | **558** | 748 |
| Selling and marketing expenses | | **(18,469)** | (18,198) |
| Administrative expenses | | **(75,051)** | (84,048) |
| Impairment losses on financial and contract assets | | **(2,240)** | (4,374) |
| Gain on disposal of a subsidiary | | **5,667** | – |
| Operating profit/(loss) | | **484** | (8,323) |
| Finance income | | **3,051** | 2,999 |
| Finance costs | | **(94)** | (126) |
| Finance income, net | | **2,957** | 2,873 |
| PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS | 3 | **3,441** | (5,450) |
| Income tax expense | 4 | **(29)** | (312) |
| PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS | | **3,412** | (5,762) |
| **DISCONTINUED OPERATION** | | | |
| Loss from a discontinued operation | | **–** | (2,669) |
| PROFIT/(LOSS) FOR THE YEAR | | **3,412** | (8,431) |

| | Note | **2022** | 2021 |
|---|---|---|---|
| | | **HK$'000** | HK$'000 |
| Attributable to: | | | |
| Owners of the parent | | **5,460** | (6,321) |
| Non-controlling interests | | **(2,048)** | (2,110) |
| | | **3,412** | (8,431) |
| EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 5 | | |
| Basic | | | |
| – For profit/(loss) for the year | | **0.89 HK cent** | (1.03 HK cents) |
| – For profit/(loss) from continuing operations | | **0.89 HK cent** | (0.73 HK cent) |
| Diluted | | | |
| – For profit/(loss) for the year | | **0.88 HK cent** | (1.02 HK cents) |
| – For profit/(loss) from continuing operations | | **0.88 HK cent** | (0.73 HK cent) |

**Consolidated statement of comprehensive income**

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| PROFIT/(LOSS) FOR THE YEAR | **3,412** | (8,431) |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | |
| Debt investments at fair value through other comprehensive income: | | |
| Changes in the fair value | **(9,473)** | (3,073) |
| Release to profit or loss upon disposal of debt instruments | **(589)** | 157 |
| Release to profit or loss on disposal of subsidiaries | **(975)** | 2,624 |
| Exchange differences: | | |
| Exchange differences on translation of foreign operations | **(662)** | (121) |
| Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods | **(11,699)** | (413) |
| Other comprehensive income that will not be reclassified to profit or loss in subsequent periods: | | |
| Equity investment designated at fair value through other comprehensive income: | | |
| Changes in fair value | **37,477** | – |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX | **25,778** | (413) |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | **29,190** | (8,844) |
| Attributable to: | | |
| Owners of the parent | **31,238** | (6,734) |
| Non-controlling interests | **(2,048)** | (2,110) |
| | **29,190** | (8,844) |
| Total comprehensive income/(loss) attributable to owners of the parent: | | |
| Continuing operations | **31,238** | (7,544) |
| Discontinued operation | **–** | 810 |
| | **31,238** | (6,734) |

**Consolidated balance sheet**

| | Notes | As at 31st December **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **2,106** | 1,724 |
| Right-of-use assets | | **2,493** | 1,281 |
| Investments in associates | | **–** | – |
| Equity investment designated at fair value through other comprehensive income | | **37,477** | – |
| Debt investments at fair value through other comprehensive income | | **37,391** | 58,858 |
| Total non-current assets | | **79,467** | 61,863 |
| CURRENT ASSETS | | | |
| Inventory | | **13,628** | 15,823 |
| Trade receivables | 7 | **183,554** | 113,021 |
| Contract assets | | **35,459** | 63,190 |
| Prepayment | | **63,998** | 46,616 |
| Other receivables and deposits | | **8,105** | 8,103 |
| Debt investments at fair value through other comprehensive income | | **843** | 3,800 |
| Pledged deposit | | **3,470** | – |
| Cash and cash equivalents | | **23,825** | 26,965 |
| Total current assets | | **332,882** | 277,518 |
| CURRENT LIABILITIES | | | |
| Trade payable | 8 | **93,250** | 76,126 |
| Other accounts payable and accruals | | **17,433** | 20,880 |
| Interest-bearing bank borrowings | | **30,792** | 3,514 |
| Lease liabilities | | **1,517** | 989 |
| Contract liabilities | | **41,106** | 44,912 |
| Tax payable | | **6,784** | 8,131 |
| Warranty provision | | **12,174** | – |
| Total current liabilities | | **203,056** | 154,552 |
| Net current assets | | **129,826** | 122,966 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **209,293** | 184,829 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | | **997** | 357 |
| Net assets | | **208,296** | 184,472 |

| | As at 31st December | |
|---|---|---|
| | **2022** | 2021 |
| | **HK$'000** | HK$'000 |
| EQUITY | | |
| **Equity attributable to owners of the parent** | | |
| Issued capital | **61,771** | 61,771 |
| Other reserves | **152,341** | 125,700 |
| | **214,112** | 187,471 |
| Non-controlling interests | **(5,816)** | (2,999) |
| Total equity | **208,296** | 184,472 |

The consolidated results of the Group for the Year have been reviewed by the audit committee of the Company.

*Notes:*

**1 Basis of preparation**

These financial statements were prepared in accordance with HKFRS and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). They were prepared under the historical cost convention, except for equity investment and debt instruments at fair value through other comprehensive income which were measured at fair value. These financial statements were presented in HK$ and all values were rounded to the nearest thousand except when otherwise indicated.

*Amended standards adopted by the Group*

The Group adopted the following revised HKFRS for the first time for the financial statements of the Year.

| | |
|---|---|
| Amendments to HKFRS 3 | *Reference to the Conceptual Framework* |
| Amendment to HKFRS 16 | *Covid-19-Related Rent Concessions beyond 30th June 2021* |
| Amendments to HKAS 16 | *Property, Plant and Equipment: Proceeds before Intended Use* |
| Amendments to HKAS 37 | *Onerous Contracts – Cost of Fulfilling a Contract* |
| *Annual Improvements to HKFRS 2018-2020* | Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 |

The nature and the impact of the revised HKFRS that were applicable to the Group are described below:

(a) Amendments to HKFRS 3 *Business Combinations* replaced a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also added to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specified that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or HK(IFRIC)-Int 21 *Levies* if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework for Financial Reporting. Furthermore, the amendments clarified that contingent assets did not qualify for recognition at the acquisition date. The Group applied the amendments prospectively to business combinations that occurred on or after 1st January 2022. As there were no business combinations during the Year, the amendments did not have any impact on the financial position and performance of the Group.

(b) Amendments to HKAS 16 *Property, Plant and Equipment* prohibited an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognised the proceeds from selling any such items, and the cost of those items as determined by HKAS 2 *Inventories*, in profit or loss. The Group applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1st January 2021. Since there was no sale of items produced prior to the property, plant and equipment being available for use, the amendments did not have any impact on the financial position or performance of the Group.

(c) Amendments to HKAS 37 clarified that for the purpose of assessing whether a contract was onerous under HKAS 37, the cost of fulfilling the contract comprised the costs that related directly to the contract. Costs that related directly to a contract included both the incremental costs of fulfilling that contract (e.g. direct labour and materials) and an allocation of other costs that related directly to fulfilling that contract (e.g. an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs did not relate directly to a contract and were excluded unless they were explicitly chargeable to the counterparty under the contract. The Group applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1st January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

(d) *Annual Improvements to HKFRS 2018-2020* sets out amendments to HKFRS 1 *Presentation of Financial Statements*, HKFRS 9 *Financial Instruments*, Illustrative Examples accompanying HKFRS 16 *Leases*, and HKAS 41 *Agriculture*. Details of the amendments that are applicable to the Group are as follows:

- HKFRS 9 clarified the fees that an entity included when assessing whether the terms of a new or modified financial liability were substantially different from the terms of the original financial liability. These fees included only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the behalf of the other. The Group applied the amendment prospectively from 1st January 2022. As there was no modification or exchange of the financial liabilities of the Group during the Year, the amendment did not have any impact on the financial position or performance of the Group.

## 2 Revenue recognition

*Revenue from contracts with customers*

Revenue from contracts with customers was recognised when control of goods or services was transferred to the customers at an amount that reflected the consideration to which the Group expected to be entitled in exchange for those goods or services.

When the consideration in a contract included a variable amount, the amount of consideration was estimated to which the Group would be entitled in exchange for transferring the goods or services to the customer. The variable consideration was estimated at contract inception and constrained until it was highly probable that a significant revenue reversal in the amount of cumulative revenue recognised would not occur when the associated uncertainty with the variable consideration was subsequently resolved.

When the contract contained a financing component which provided the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue was measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contained a financing component which provided the Group with a significant financial benefit for more than one year, revenue recognised under the contract included the interest expense accrued on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services was one year or less, the transaction price was not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15 *Revenue from Contracts with Customers*.

(a) Project sales

Revenue from the design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services was recognised based on the stage of completion of the contracts, provided that the stage of contract completion and the gross billing value of contracting work could be measured reliably.

Some contracts included multiple deliverables, such as the sale of hardware and related installation services. However, the installation could be performed by another party. It was therefore accounted for as a separate performance obligation.

Where the contracts included multiple performance obligations, the transaction price would be allocated to each performance obligation based on the stand-alone selling prices. For these contracts, revenue for the hardware was recognised at a point in time when the hardware was delivered, the legal title passed and the customer accepted the hardware. Revenue for service was recognised based on the actual service provided at the end of the reporting period.

The customer paid the fixed amount based on a payment schedule. If the services rendered by the Group exceeded the payment, a contract asset was recognised. If the payments exceeded the service rendered, a contract liability was recognised.

(b) Sales of services

The Group provided maintenance services to the end users. Revenue from fixed-price contracts for delivering maintenance services was generally recognised in the period the services were provided, using a straight-line basis over the term of the contract. These services were provided as a fixed-price contract, with contract terms generally ranging from less than one year to three years.

(c) Sales of software

Revenue from software implementation was recognised when the customer accepted and took the control of software implementation. Revenue was based on the price specified in the contracts. No elements of financing was deemed present as the sales were made with a credit term of thirty to forty-five days, which was consistent with market practice.

## 3 Expenses by nature

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cost of inventory sold | **278,355** | 218,517 |
| Cost of services provided | **122,133** | 95,988 |
| Employee benefit expense (excluding Directors' fee, social security and pension costs): | | |
| Wages and salaries | **64,273** | 71,093 |
| Write-down of inventory to net realisable value | **1,060** | 1,025 |

## 4 Income tax expense

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Current – Macao | | |
| Charge for the year | **53** | 286 |
| Current – Mainland China | | |
| Charge for the year | **–** | 213 |
| Overprovision in prior years | **(24)** | – |
| | **29** | 499 |
| Total tax charge for the year from continuing operations | **29** | 312 |
| Total tax charge for the year from a discontinued operation | **–** | 187 |
| | **29** | 499 |

## 5 Earnings/(loss) per Share attributable to ordinary equity holders of the parent

The calculation of the basic earnings per Share amounts was based on the profit/(loss) for the end of the reporting period attributable to ordinary equity holders of the parent, and the weighted average number of Shares of 616,115,000 (2021: 614,794,000) in issue during the Year.

The calculation of the diluted earnings per Share amounts was based on the profit/(loss) for the end of the reporting period attributable to ordinary equity holders of the parent. The weighted average number of Shares used in the calculation was the number of Shares in issue during the Year, as used in the basic earnings per Share calculation, and the weighted average number of Shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential Shares into Shares.

The calculations of basic and diluted earnings/(loss) per Share were based on:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Earnings | | |
| Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic earnings per Share calculation: | | |
| From continuing operations | **5,460** | (4,513) |
| From a discontinued operation | **–** | (1,808) |
| | **5,460** | (6,321) |

Number of shares

| | **2022** | 2021 |
|---|---|---|
| Shares | | |
| Weighted average number of Shares in issue during the year used in the basic earnings per Share calculation (thousands) | **616,115** | 614,794 |
| Effect of dilution – weighted average number of Shares: | | |
| Options to subscribe for Shares pursuant to the share option scheme approved by the Members at the AGM on 22nd June 2012 (thousands) | **4,805** | 3,444 |
| | **620,920** | 618,238 |

## 6 Dividend

The Company will give notice of the closure of its register of Members once the date of the AGM is determined. Such notice will be given at least ten days (excluding Saturday and Sunday) on which banks in Hong Kong are generally open for business, before such closure, pursuant to Rule 17.78 of the GEM Listing Rules. The expected dividend payment date is 7th July 2023, subject to the approval of the Members in the forthcoming AGM for the dividend.

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Proposed final to be paid out of contributed surplus – HK$0.01 (2021: HK$0.01) per Share | **6,161** | 6,144 |

## 7 Trade receivables

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, was as follows:

| | **2022** **HK$'000** | 2021 HK$'000 |
|---|---|---|
| Within three months | **165,157** | 90,068 |
| Four to six months | **11,102** | 15,964 |
| Seven to twelve months | **1,139** | 1,714 |
| Over twelve months | **6,156** | 5,275 |
| | **183,554** | 113,021 |

## 8 Trade payable

An ageing analysis of the trade payable as at the end of the reporting period, based on the invoice date, was as follows:

| | **2022** | 2021 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within three months | **87,652** | 68,583 |
| Four to six months | **1** | – |
| Seven to twelve months | **311** | 2,244 |
| Over twelve months | **5,286** | 5,299 |
| | **93,250** | 76,126 |

## MANAGEMENT DISCUSSION AND ANALYSIS

## VODATEL – AT A GLANCE!

Headquartered in Macao, Vodatel is an integrated company that operates under the "Multiple Branding" philosophy, with "Vodatel" and "Mega Datatech" each positioned to achieve market differentiation, yet complementing one another in product and service offerings. Always putting customers first, the primary driver at Vodatel is to become the partner-of-choice of its customers when they seek a local partner for turnkey solutions or service provisioning aligns their expectations in level of choices and service requirements and matches their demands, values and aspirations.

As a system integrator and service provider that already represented a list of international and renowned manufacturers, the Group is in continuous pursuit to identify products with high potential, in particular within their areas of expertise, to grow and complement its current products and service offerings. In terms of human resources, the Group continues to house a team of highly trained, skilled and experienced engineers, making "Vodatel" and "Mega Datatech" among the most sought companies to provide round-the-clock and reliable system maintenance and support services, in particular in handling sophisticated turnkey solutions where unexpected hiccups, which if not promptly resolved or contained, can potentially result in significant business and/or service interruptions.

## REVIEW OF BUSINESS ACTIVITIES

With Mainland China as the main growth engine, total contracts secured by the Group reached HK$574,700,000 during the Year, which not only represented a 33.44% year-on-year growth, but also back to pre-pandemic level.

### Business in Macao

With the pandemic against the backdrop, total contracts secured by VHL and MDL in Macao increased marginally by 5.77% from HK$251,200,000 in 2021 to HK$265,700,000 in the Year.

As a tourist-centric city with overwhelming reliance on visitor arrivals from Mainland China, Macao had been following the nationwide pandemic control directives to contain the pandemic, making it highly sensitive to any local outbreak. With a local outbreak in June and a hard landing from the withdrawal of the zero-COVID policy in December, the gaming industry tumbled and had its worst annual gross revenue from games of fortune performance on record since 2010. 2022 was therefore another year of scepticism. Gaming operators had remained exceptionally cautious with their spending due to both the pandemic and upcoming renewal of the gaming concessions. Within the product domain of the Group, namely surveillance and data networks, gaming operators continued to put consideration of major capital expenditure strategy on hold and to shy away from any major upgrades and improvements to primarily focus on mandatory spending, such as maintenance. In the Year, the Group witnessed new low in total contracts signed, with only HK$44,700,000 worth of contracts secured from different gaming and hotel operators, which represented a drop of 6.27% as compared to 2021 and just a mere 19% of total contracts generated from the gaming sector in 2019.

Getting into 2023, Macao resumes on a tourism recovery journey and sees a backlog of visitors from Mainland China and Hong Kong coming to Macao. On 1st January 2023, the new ten-year gaming licences come into effect for the six gaming incumbents, where pledges of different investment sizes are made to attract visitors from international markets and to grow the non-gaming segment, such as sports, art, cultural events, and health and community tourism. As the Group has traditionally focused on the gaming domain, efforts will be made to ensure that the Group will have an active role in the non-gaming value chain as it evolves.

During the Year, the pandemic continued to decimate the investment appetite of different gaming operators, hence both VHL and MDL focus on the Government of Macao and other key vertical markets, such as utilities, education, insurance, health and transportation. During the Year, VHL and MDL in combination secured HK$221,000,000 worth of contracts from the Government of Macao and other key vertical markets, which represented a 8.59% year-on-year increase. Contracts received covered areas of networks infrastructure, surveillance, TETRA radio, access control, public access, servers and storage, firewalls, software development and maintenance services, with Public Security Police Force Bureau, Judiciary Bureau, Customs, Financial Services Bureau, Legal Affairs Bureau, Municipal Affairs Bureau, Labour Affairs Bureau, Housing Bureau, to name a few, remain some of the key Government departments supported by both VHL and MDL.

**Business in Hong Kong**

The Hong Kong team has long faced with shortage of professionals skilled in IT (both marketing and technical), resulting in business remaining stagnant over the last five years. During the Year, the Hong Kong team continued to focus on serving its existing customer base and signed HK$46,900,000 worth of contracts, trailing behind total contracts secured in 2021 by 20.53%. Similar to previous years, over 90% of contracts secured related to data networks and SD-WAN infrastructure, with mix of these two business areas maintained around 40%/60% during both 2021 and the Year.

With difficulty generating organic growth in the Hong Kong market, in December 2021, the Group set up a new subsidiary in Hong Kong, Meta-V, to focus on assisting companies to offload their burden on IT infrastructure investment to a “pay when use” model, i.e. by shifting from capital expenditures to operating expenditures. Via partnering with a renowned global edge-to-cloud vendor, Meta-V offers managed services with AI and automation capabilities to companies, allowing them to enjoy comprehensive monitoring, optimisation and improvements across all areas of their IT needs. During the Year, with strong support of the vendor, Meta-V secured its first managed services contract from a leading mobile provider with operating subsidiaries in Hong Kong and Macao. Total value of contracts secured from the “pay when use” model and underlying server infrastructure totalled HK$26,200,000.

**Business in Mainland China**

Mainland China has grown to become the most profitable market for the Group and continues to outperform both the Macao and Hong Kong markets with an impressive organic year-on-year growth of 95.84% during the Year. Total contracts secured by the Mainland China team reached HK$236,000,000, which not only was an all-time record results since 2015, but also represented a growth multiple of over 23 times since 2015. Over 98% of business derives from the business segments of data networks infrastructure in data centres and SD-WAN infrastructure. During the Year, strong organic growth was witnessed in both areas.

Contracts of data networks infrastructure jumped by a whopping 126.94% or HK$170,100,000, principally attributable to the addition of a tier-one Internet technology leader that operates creative content platforms to the customer base of the Group, which comprises of local, regional and global telecommunications and Internet service/technology providers. Exciting new contracts received from this tier-one Internet technology leader during the Year included a series of contracts totalled HK$132,300,000 to install 100Gb and 400Gb data switches at newly built data centres located in Europe and North America.

Contracts of SD-WAN infrastructure also grew 41.08% to HK$62,600,000, with growth momentum explained by the continued collaborations with different communications service providers to market to customers operating at multi-sites regarding the benefits of deployment of SD-WAN infrastructure, which are operational costs savings and improved resource usage. This marketing strategy has proven to be successful as evidenced by the growth of SD-WAN business generated by the Mainland China team growing over the past six years from a mere HK$327,000 in 2017 to HK$62,600,000 in the Year. During the Year, key projects awarded via working in collaboration with different communication services provider included a project valued over HK$18,000,000 to build an SD-WAN infrastructure for a leading Internet technology company that operates creative content platforms with multi locations in Mainland China and overseas and a series of projects valued over HK$3,300,000 from one of the top ten ranked insurance company in Mainland China with business operations in more than two thousand locations and a team of over 50,000 employees.

**Other Investment Holdings**

Tidestone Group – The business focus of Tidestone Group remains on the promotion of the self-developed "Tidestone"– branded (local-hosted and cloud-based) network management system, with key modules including intelligent network management system, response support system, centralised alarm system, smart customer service platform and unified monitoring and management system for data centres. During the Year, total contracts collectively secured by Tidestone Group amounted to HK$22,200,000, which was similar to the preceding year. The telecommunications sector remains the core business sector of Tidestone Group with contracts secured from telecommunications service providers in the provinces of Guangdong, Jiangxi, Jiangsu, Hubei, Hebei, Tibet and Hunan and municipalities of Chongqing and Shanghai.

In November 2022, Tidestone Group was awarded the Hi-Tech Enterprise Certificate collectively issued by Jiangxi Science and Technology Institute, Jiangxi Provincial Finance Office and State Taxation Bureau Jiangxi Provincial Taxation Bureau. The certificate has a validity of three years.

TTSA – During the Year, TTSA continued to show improvements to its operating performance. As per the unaudited financial statements of TTSA, as at 31st December 2022, TTSA ended the Year with total assets of HK$286,034,000 and total equity of HK$63,511,000. Revenue grew 3.09% from HK$184,824,000 in 2021 to HK$190,537,000 in the Year while subsequent to undertaking a series of cost control measures, net profit for the Year increased to HK$12,411,000 as compared to HK$4,521,000 for the preceding year.

In October 2022, it was reported in the news that the Government of Timor-Leste has included in its 2023 state budget an amount of HK$113,821,000 to acquire the 54.01% equity stake of Oi in TTSA. As at 22nd March 2023, there is no further updates regarding this possible sale and purchase transaction between the Government of Timor-Leste and Oi. The Group will continue to keep close watch of any latest development.

With operating performance of TTSA turning around as evidenced by five consecutive quarters of profit-making track record and the Government of Timor-Leste stating its intention to acquire the equity stake of Oi in TTSA with an indicative valuation of TTSA in the press, the Group engaged an independent valuer to perform the latest valuation of TTSA. As at 31st December 2022, TTSA was revalued at HK$37,477,000.

## REVIEW OF OPERATING RESULTS

### Turnover and Profitability

Total contracts secured by the Group in the Year marked its record high since 2015 to reach HK$574,700,000 with the addition of a tier-one Internet technology leader that operates creative content platforms to its customer base. Although revenue for the Year grew to HK$491,567,000, which represented a 19.00% year-on-year growth over 2021 of HK$413,079,000, the Group suffered its biggest decline in gross profit margin with gross profit margin plummeting over five percentage points from 23.62% in 2021 to 18.31% in the Year. Factors attributable to this decline included keen competition from scarce works from gaming operators that materially drove down margins, heated competition from other SD-WAN vendors and managed services and supply of associated server bulk carrying low margins as the Group laid its first footstep in this market segment. Therefore, despite a 19.00% year-on-year growth in revenue, gross profit for the Year dropped from HK$97,549,000 in 2021 to HK$90,019,000, representing a 7.72% year-on-year decline.

Selling and marketing costs increased from HK$18,198,000 in 2021 to HK$18,469,000 for the Year. Sales commission paid to the sales team is based on gross profit generated from each contract, therefore, with average gross profit margin dropping to around 18%, over HK$1,600,000 less of sales commission were paid to the sales team. The drop in total sales commission paid was met with higher bank charges and freight costs, the latter of which increased by over HK$1,042,000, or a 13.88% year-on-year increase, as the pandemic continued to push up international shipping costs and the Group needed to accept partial delivery to minimise the long delivery lead time from equipment vendors so as to avoid major delays in the completion of various projects, especially those where customers have stipulated completion deadlines.

During the Year, administrative expenses decreased significantly from HK$84,048,000 in 2021 to HK$75,051,000. Staff costs have always been the biggest cost element. Since 2020, the Group underwent a series of moves, including the assignment of surplus resources from the gaming team to support non-gaming projects and those projects in the Mainland China and the introduction of an attrition and employment separations programme. Total number of employees dropped from 168 in 2020 to 155 in 2021, while wages and salaries declined from HK$74,822,000 in 2020 to HK$71,093,000 in 2021. The employment separation programme was extended into the Year to right-size the Group to a leaner and more efficient organisation. Coupled with the introduction of no-pay leave programme from August to December to all employees in Macao (employees with lower-paid roles were excluded from the programme) and major separation compensations mostly reflected in prior years, wages and salaries further reduced to HK$64,273,000 for the Year.

The Group remains fully committed to cost and cash productivity and continues to review its cost structure so that no area of cost left untouched. Via the ESG programme, the Group finds practical ways to streamline different processes and workflows and manages to make good progress in delivering environmentally sustainable business advantages. Cost savings across different facets were identified, from office utilities to printing and stationary to posting and courier. As a result, total savings of over HK$1,000,000 in administrative expenses were achieved during the Year.

Although a growth in the headline revenue was met with a dip in gross profit margin, high freight costs and a further impairment of HK$846,000 to the debt investments at fair value through other comprehensive income in relation to the default of CFLD and expected credit loss against certain contract assets, various exercises to control costs and gain on disposal of HK$5,667,000 from disposing partial equity in a loss-making entity, the Group reported profit before tax of HK$3,441,000 for the Year as compared to loss before tax of HK$5,450,000 for 2021.

**Capital Structure and Financial Resources**

With no major projects in progress that requires the need to build up inventory, level of inventory stood at HK$13,628,000 as at 31st December 2022 as compared to HK$15,823,000 as at 31st December 2021. Aligned with a 19.00% year-on-year growth of its headline revenue, as at 31st December 2022, contract assets and trade receivables hiked to HK$219,013,000 while contract liabilities and trade payable increased to HK$134,356,000.

The Group continues to exercise capital discipline and maintains a solid balance sheet with gearing ratio (debt/equity) of 14.78% as at 31st December 2022. In anticipation that supply chain disruptions can potentially result in severe operational and financial consequences, the Group made available additional banking facilities for flexible liquidity management. During the Year, the Group experienced an exceptionally uneven distribution in revenue recognition, with over 40% of revenue recognised during the last quarter. As a result, unlike prior years where borrowing was unnecessary, the Group utilised HK$30,792,000 of its banking facilities as at 31st December 2022 to ride through this funding spike. In January 2023, all bank overdrafts were fully repaid and the Group reverted back to a balance sheet with no gearing.

Attributable to the revaluation of TTSA to HK$37,477,000, equity base increased to HK$208,296,000 as at 31st December 2022, of which cash and cash equivalents and yield-enhanced financial instruments (including pledged deposit) stood at HK$65,529,000. Among the bond holdings were HK$2,707,000 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), HK$2,414,000 from Chong Hing Bank Limited (a company incorporated in Hong Kong with limited liability and whose ordinary shares are listed on Main Board), HK$2,227,000 from HSBC Holdings PLC (a company incorporated in England, UK with limited liability and whose ordinary shares of US$0.50 each are listed on the Main Board and the London Stock Exchange in UK) and HK$2,144,000 from LS Finance (2017) Limited (a company incorporated in BVI with limited liability). For CFLD, on 2nd February 2023, interest-bearing instrument of indebtedness issued by CFLD with a coupon rate of 9% per annum and a maturity date of 31st July 2021 and 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, both were cancelled on 2nd February 2023, were restructured to three different instruments of indebtedness with coupon rates ranging from 0% to 2.5% per annum. As at 28th February 2023, the total market value of these new instruments of indebtedness was HK$752,000.

On 20th March 2023, the Company was notified of the official announcement made by the Swiss Financial Market Supervisory Authority that the Additional Tier 1 bonds issued by Credit Suisse Group AG (a company incorporated in Switzerland with limited liability and whose shares of CHF0.04 each are listed on the SIX Swiss Exchange in Switzerland) that the Group held with a nominal value of approximately HK$2,353,000 would be written off. The Board will continue to monitor closely for any relevant news so that appropriate pre-emptive steps may be taken.

Financial prudence practised by over the years, including controlling credit terms to customers, closely monitoring recoverability of receivables and negotiating extended payment terms from vendors, has allowed management to protect the business of the Group. The Group also has banking facilities available for use where needed. Management believe that the current liquidity position, capital structure and banking facilities will suffice unexpected headwinds, including those brought by the aftermath of the pandemic, while providing flexibility to pursue and support new business opportunities.

## CORPORATE GOVERNANCE

The Company applied the principles in the Code by complying with the Code throughout the Year, except that:

1 not all Directors participated in continuous professional development;

2 the independent non-executive Directors did not attend the AGM held in the Year; and

3 the management do not provide all Directors with monthly updates.

C.1.4 The Directors consider that briefing received from the company secretary of the Company is sufficient for them to render their contribution to the Board.

C.1.6 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 the past few years. Nevertheless, Members can send their enquiries and opinions to the Company for the attention of the independent non-executive Directors.

D.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. Management is also available to address any inquiries from the Directors.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of the Shares during the Year. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the Year.

## SCOPE OF WORK OF THE AUDITOR

The figures in respect of the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated balance sheet and the related notes of the Group thereto for the Year as set out in this preliminary announcement were agreed by the Auditor to the amounts set out in the draft consolidated financial statements of the Group for the Year. The work performed by the Auditor in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion was expressed by the Auditor on the preliminary announcement.

## DEFINITIONS

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| "AGM" | annual general meeting |
| "Auditor" | Ernst & Young, the auditor of the Company |
| "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 Land Development Co., Ltd., a company incorporated in PRC with limited liability and whose shares are listed on Shanghai Stock Exchange |
| "CHF" | Swiss franc, the lawful currency of Switzerland |
| "Code" | the code provision of the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules |

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| "Company" | Vodatel Networks Holdings Limited |
| "Director" | the director of the Company |
| "ESG" | environmental, social and governance |
| "Exchange" | The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability (not applicable to New York Stock Exchange, Shanghai Stock Exchange and SIX Swiss Exchange) |
| "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" or "Vodatel" | the Company and its subsidiaries (not applicable to Tidestone Group) |
| "HK$" | Hong Kong dollar, the lawful currency of Hong Kong |
| "HKAS" | Hong Kong Accounting Standard |
| "HK cent" | Hong Kong cent, where 100 HK cents equal HK$1 |
| "HKFRS" | financial reporting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong). They comprise 1. Hong Kong Financial Reporting Standards, 2. HKAS, and 3. Interpretations |
| "HK(IFRIC)-Int" | Hong Kong (IFRIC) Interpretation |
| "Hong Kong" | the Hong Kong Special Administrative Region of PRC (not applicable to Hong Kong Accounting Standard, Hong Kong Exchanges and Clearing Limited, Hong Kong Financial Reporting Standards, Hong Kong (IFRIC) Interpretation, the Hong Kong Institute of Certified Public Accountants and The Stock Exchange of Hong Kong Limited) |
| "Macao" | the Macao Special Administrative Region of PRC |
| "Main Board" | the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM |

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| "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 |
| "Meta-V" | Meta-V Tech Services Limited, incorporated in Hong Kong with limited liability and an indirect subsidiary of the Company |
| "Oi" | Oi S.A. – in Judicial Reorganisation, a company incorporated in Brazial 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 |
| "PRC" | The People's Republic of China |
| "SD-WAN" | software-defined networking in a wide area network |
| "Share" | ordinary share of HK$0.10 each in the share capital of the Company |
| "Switzerland" | The Swiss Confederation |
| "Tidestone Group" | Capital Instant Limited, a company incorporated in BVI with limited liability and an indirect associate of the Company, and its subsidiaries |
| "Timor-Leste" | The Democratic Republic of Timor-Leste |
| "TTSA" | Timor Telecom, S.A., a company incorporated in Timor-Leste with limited liability |
| "UK" | The United Kingdom of Great Britain and Northern Ireland |
| "US$" | United States dollar, the lawful currency of USA |
| "USA" | The United States of America |

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| "VHL" | Vodatel Holdings Limited, incorporated in BVI with limited liability and an indirect wholly-owned subsidiary of the Company |
| "Year" | the year ended 31st December 2022 |

By order of the Board
**José Manuel dos Santos**
*Chairman*

Macao, 23rd March 2023

| **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 Au 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*