



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

FIRST QUARTER REPORT

2019

* *for identification purpose only*

Characteristics of GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

BUSINESS AND FINANCIAL HIGHLIGHTS FOR THE THREE-MONTH PERIOD

- Categorized as traditional slower months for business, in particular business generated from the Government of Macao, the Group registered revenue of HK\$77,524,000 for the Three-Month Period, or a drop of 7.54% as compared to the corresponding period of 2018
- As majority of the revenue was related to sale of hardware which carries lower margin, the Group generated gross profit of only HK\$11,920,000, which translated to gross profit margin of 15.38%
- Awarded a major project from a gaming operator to build a surveillance system, together with the supporting networks infrastructure, at its new integrated resort that is currently under construction in Cotai
- Continued to enjoy stable business momentum in Mainland China, with the Mainland China team bringing in over HK\$16,000,000 worth of works from a local leading provider of Internet value added services to build networks infrastructure and different leading network communication services providers and Internet service providers to build SD-WAN infrastructure
- Cash and cash equivalents and yield-enhanced financial instruments totalled HK\$151,053,000, representing approximately 40% of the total assets of the Group
- The Directors do not recommend payment of an interim dividend for the Three-Month Period

FIRST QUARTER RESULTS

The Board is pleased to present the unaudited consolidated results of the Group for the Three-Month Period, which was reviewed by the audit committee of the Company, as follows:

		Unaudited	
		Three-Month Period HK\$'000	Three months ended 31st March 2018 HK\$'000
Revenue from contracts with customers		77,524	83,848
Cost of sales of goods		(52,513)	(50,521)
Cost of providing services		(13,091)	(13,268)
Gross profit		11,920	20,059
Selling, marketing costs and administrative expenses		(25,282)	(25,683)
Other gains		237	434
Operating loss		(13,125)	(5,190)
Finance income		1,139	574
Finance costs		(27)	—
Finance income - net		1,112	574
Loss before income tax		(12,013)	(4,616)
Income tax expense	1	—	—
Loss for the period		(12,013)	(4,616)
Loss is attributable to:			
Owners of the Company		(11,316)	(4,441)
Non-controlling interests		(697)	(175)
		(12,013)	(4,616)
Loss per Share for loss attributable to the ordinary equity holders of the Company:		HK Cents	HK Cent
Basic and diluted loss per Share	2	(1.84)	(0.72)
Dividends	3	—	—

Notes to the condensed consolidated income statement

1 Income tax expense

Hong Kong profits tax was provided at the rate of 8.25% for the first HK\$2,000,000 of assessable profits of one of the subsidiaries incorporated in Hong Kong and 16.5% on other assessable profits for the Three-Month Period (three months ended 31st March 2018: same). Taxation on non-Hong Kong profits was calculated on the estimated assessable profits for the Three-Month Period at the rates of taxation prevailing in the regions in which the Group operated.

2 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 Three-Month Period.

(b) Loss used in calculating loss per Share

	Three-Month Period HK\$'000	Three months ended 31st March 2018 HK\$'000
Loss attributable to ordinary equity holders of the Company used in calculating basic loss per Share	<u>(11,316)</u>	<u>(4,441)</u>

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

	Three-Month Period	Three months ended 31st March 2018
Weighted average number of Shares used as the denominator in calculating basic loss per Share (thousands)	<u>614,435</u>	<u>614,435</u>

(d) Effects of Options on loss per Share

Options granted to Directors, employees and a consultant under the Scheme were considered to be potential Shares. They would have been included in the determination of diluted loss per Share to the extent to which they were dilutive. The 51,376,000 Options granted on 26th September 2016 were not included in the calculation of diluted loss per Share because they were anti-dilutive for the Three-Month Period. These Options could potentially dilute basic earnings/(loss) per Share in the future.

3 Dividends

The Directors do not recommend payment of interim dividend for the Three-Month Period (three months ended 31st March 2018: nil).

4 Reserves

	Contributed surplus HK\$'000	Share-based payments HK\$'000	Capital redemption reserve HK\$'000	Financial assets at FVOCI HK\$'000	Merger reserve HK\$'000	Statutory reserve HK\$'000	Foreign currency translation HK\$'000	Total other reserves HK\$'000	Retained earnings/(accumulated losses) HK\$'000
As at 1st January 2018	97,676	7,442	702	716	35,549	49	2,914	145,048	10,071
Revaluation - loss	—	—	—	(605)	—	—	—	(605)	—
Currency translation differences	—	—	—	—	—	—	(13)	(13)	—
Loss for the three months ended 31st March 2018	—	—	—	—	—	—	—	—	(4,441)
As at 31st March 2018	97,676	7,442	702	111	35,549	49	2,901	144,430	5,630
As at 1st January 2019	97,676	7,442	702	(1,966)	35,549	49	2,889	142,341	3,529
Revaluation - gain	—	—	—	2,596	—	—	—	2,596	—
Currency translation differences	—	—	—	—	—	—	(136)	(136)	—
Loss for the Three-Month Period	—	—	—	—	—	—	—	—	(11,316)
As at 31st March 2019	97,676	7,442	702	630	35,549	49	2,753	144,801	(7,787)

Business Review

Business in Macao, Hong Kong and Mainland China

Similar to previous years, the Group starts a new fiscal year with a weak quarter as the initial months are generally categorised as slower months for business, in particular works tendered by the Government of Macao. During the Three-Month Period, VHL focused primarily on the completion of different projects for the Government of Macao that it secured during the last quarter of 2018 and the Three-Month Period, including the supply, installation and commissioning of a surveillance system at an athlete and sports training arena and an extra low voltage system for the office of a department that underwent major renovation. During the same period, VHL also focused on the preparation of the rollout of Phase Two of the contract which involved the supply and installation of traffic detection system at different road junctions for the Transport Bureau. This contract, which includes the provision of innovative smart cameras and traffic management of intelligent transportation systems, is worth over HK\$42,000,000.

With major works and effort made during 2018, VHL has been awarded a major project from a gaming operator to build a surveillance system, together with the supporting networks infrastructure, at its new integrated resort that is currently under construction in Cotai. This award is of great significance to the Group, not only as this gaming operator has limited previous business dealings with VHL, it is also the last standing key gaming operator that will extend from its established base in Macao peninsula to institute a major footprint in Cotai.

Similar to VHL, MDL also experiences traditional slow start for the year, especially from the Government of Macao where fewer projects have been tendered out as many are still in the planning stage. During the Three-Month Period, major projects secured by MDL in the areas of servers, storage, networks, customised software and maintenance support services included contracts from banks, insurance companies, hospitals and different departments of the Government of Macao, such as the Health Bureau, Labour Affairs Bureau, Public Administration and Civil Service Bureau, to name a few.

During the Three-Month Period, the Mainland China team continued to support the road map of a local leading provider of Internet value added services as it develops network infrastructure in countries to support “The Belt and Road Initiative” and the rollout of SD-WAN infrastructure for different leading network communication services providers and Internet service providers, securing over HK\$16,000,000 worth of new orders.

Other Investments – TTSA

The operating performance of TTSA continues to be lacklustre since the launch of telecommunications services by two new operators in 2013, with both revenue and profitability dropping since then. During the Three-Month Period, while TTSA reported revenue of HK\$47,515,000, representing a 6.57% drop of revenue generated during the last quarter of 2018, TTSA also witnessed a decline to its earnings before interest, tax, depreciation and amortisation to HK\$19,598,000. Net loss for the Three-Month Period stood at HK\$12,269,000.

During the Three-Month Period, there is no update regarding the disposal of the shareholding of 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 the United States of America and BM&FBOVESPA in Brazil, in TTSA. The Group will continue to keep close watch of any latest developments.

Financial Review

Due to traditional slower months for business, in particular business generated from the Government of Macao, operating performance for first quarter of every new fiscal year continues to be categorised as less than impressive. During the Three-Month Period, the Group registered revenue of HK\$77,524,000, or a drop of 7.54% as compared to the corresponding period of 2018. As majority of revenue recognised during the Three-Month Period was related to sale of hardware which carries lower margin, the Group generated gross profit of only HK\$11,920,000, which translated to gross profit margin of 15.38%.

Salary costs remains the biggest cost element of the Group, hence cost controlling has always been a key focus area of management. Despite effecting an average 3% salary increase to align inflation and to remain competitive among its peers, with tighter cost control on general office expenses, total selling, marketing costs and administrative expenses for the Three-Month Period levelled that of the corresponding period of last year at approximately HK\$25,000,000. Nevertheless, with weak business performance for first quarter, net loss for the Three-Month Period widened to HK\$12,013,000 as compared to the corresponding three months of last year.

The Group continues to enjoy a strong and healthy capital structure with no external borrowings. As at 31st March 2019, cash and cash equivalents and yield-enhanced financial instruments totalled HK\$151,053,000, accounting for approximately 40% of the total assets of the Group.

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 31st March 2019, the relevant interests and short positions of the Directors or Chief Executives in the Shares, underlying Shares and debentures of the Company or its Associated Corporations which will be required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which he took or deemed to have taken under such provisions of SFO) or required pursuant to Section 352 of SFO, to be entered in the register referred to therein or required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

Aggregate long positions in the Shares

Name of Director	Nature of interest	Number of Shares held	Number of underlying Shares (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	960,000	3.76
Monica Maria Nunes	Personal (Note 3)	2,452,500	960,000	0.56
Fung Kee Yue Roger	Personal (Note 4)	210,000	400,000	0.10
Wong Tsu An Patrick	Personal (Note 5)	—	400,000	0.07
Tou Kam Fai	Personal (Note 6)	—	400,000	0.07

Notes:

- As at 31st March 2019, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by OHHL, a company wholly-owned by José Manuel dos Santos.
- The personal interest of Kuan Kin Man comprised 22,112,500 Shares and 960,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 960,000 underlying Shares in respect of Options granted to her by the Company. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- The personal interest of Fung Kee Yue Roger comprised 210,000 Shares and 400,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.

- 5 The personal interest of Wong Tsu An Patrick comprised 400,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Wong Tsu An Patrick as beneficial owner.
- 6 The personal interest of Tou Kam Fai comprised 400,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Tou Kam Fai as beneficial owner.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

The register of Substantial Shareholders required to be kept under Section 336 of Part XV of SFO showed that as at 31st March 2019, the Company was notified of the following Substantial Shareholders' interests, being 5% or more of the issued share capital of the Company. These interests were in addition to those disclosed above in respect of the Directors and Chief Executives:

Aggregate long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
ERL	Corporate (Note 1)	357,945,500	58.26
OHHL	Corporate (Note 1)	357,945,500	58.26
Lei Hon Kin	Family (Note 2)	357,945,500	58.26

Notes:

- 1 As at 31st March 2019, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by OHHL, a company wholly-owned by José Manuel dos Santos.
- 2 Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

COMPETING BUSINESS

As at 31st March 2019, none of the Directors, or any person who was (or group of persons who together were) entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who was (or were) able, as a practical matter, to direct or influence the management of the Company or any of their respective Close Associates had any interest in a business, which competed or might compete with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company did not redeem any of the Shares during the Three-Month Period. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the Three-Month Period.

DEFINITIONS

“Associated Corporation” a corporation:

- 1 which is a subsidiary or holding company of the Company or a subsidiary of the holding company of the Company; or
- 2 (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 share of that class

“Board” the board of Directors (not applicable to Main Board)

“Brazil” The Federative Republic of Brazil

“BVI” the British Virgin Islands

“Chief Executive” a person who either alone or together with one or more other persons is or will be responsible under the immediate authority of the Board for the conduct of the business of the Company

“Close Associate” has the meaning ascribed thereto in the GEM Listing Rules

“Company” Vodatel Networks Holdings Limited

“Director” the director of the Company

“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
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM made by the Exchange from time to time
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“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 Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited)
“Macao”	the Macao Special Administrative Region of PRC
“Main Board”	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Mainland China”	PRC, other than the regions of Hong Kong, Macao and Taiwan
“MDL”	Mega Datatech Limited, incorporated in Macao with limited liability and an indirect wholly-owned subsidiary of the Company
“OHHL”	Ocean Hope Holdings Limited, a company incorporated in BVI with limited liability
“Option”	an option to subscribe for Shares pursuant to the Scheme and for the time subsisting
“PRC”	The People’s Republic of China
“Scheme”	the share option scheme approved by the holders of the Shares at the annual general meeting 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

“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 31st March 2019
“TTSA”	Timor Telecom, S.A., a company incorporated in the Democratic Republic of Timor-Leste with limited liability
“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, 10th May 2019

Executive Directors

José Manuel dos Santos
Kuan Kin Man
Monica Maria Nunes

Independent Non-Executive Directors

Fung Kee Yue Roger
Wong Tsu An Patrick
Tou Kam Fai