



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

2014

* *for identification purpose only*

Characteristics of GEM

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, 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.

Hong Kong Exchanges and Clearing Limited (a company incorporated in Hong Kong with limited liability) and the Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

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

- Despite traditional slower months for the beginning of the year, in the presence of a major surveillance project at the Galaxy Resort, revenue for the Three-Month Period stood at HK\$58,310,000
- Due to higher salary costs in Macao and the engagement of workforce on short-term engagements to support the major surveillance project at the Galaxy Resort, coupled with the absence of dividends from TTSA, the Group reported net loss of HK\$7,701,000 for the Three-Month Period
- New contracts of over HK\$50,000,000 added to the order book of the Group
- Due to competition. TTSA incurred net loss of HK\$4,124,000 for the Three-Month Period
- Cash and cash equivalents (including pledged bank deposits) and yield-enhanced financial instruments as at 31st March 2014 stood at over HK\$150,000,000
- 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 as follows:

		Unaudited	
		Three-Month	Three months ended
	Note	Period	31st March
		HK\$' 000	2013
			HK\$' 000
Revenue		58,310	41,413
Cost of sales		(43,913)	(31,804)
Gross profit		14,397	9,609
Selling, marketing costs and administrative expenses		(22,651)	(18,698)
Other income		227	928
Operating loss		(8,027)	(8,161)
Finance income – net		1,187	859
Share of (loss)/profit of associates		(817)	16
Loss before income tax		(7,657)	(7,286)
Income tax expense	1	(44)	—
Loss for the period		(7,701)	(7,286)
Loss attributable to:			
Owners of the Company		(6,172)	(6,486)
Non-controlling interests		(1,529)	(800)
		(7,701)	(7,286)
Loss per Share attributable to owners of the Company for the Three-Month Period (expressed in HK cents per Share)			
Basic loss per Share	2(a)	(1.01)	(1.06)
Diluted loss per Share	2(b)	Not applicable	(1.06)
Dividends (HK\$)	3	—	—

Notes to the condensed consolidated income statement

1 Income tax expense

Hong Kong profits tax was provided at the rate of 16.5% (three months ended 31st March 2013: 16.5%) on the estimated assessable profit for the Three-Month Period. Taxation on overseas profits was calculated on the estimated assessable profit 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

Basic loss per Share was calculated by dividing the loss attributable to owners of the Company by the weighted average number of Shares in issue during the Three-Month Period.

	Three-Month Period HK\$' 000	Three months ended 31st March 2013 HK\$' 000
Loss attributable to owners of the Company	<u>(6,172)</u>	<u>(6,486)</u>
Weighted average number of Shares in issue (thousands)	<u>613,819</u>	<u>613,819</u>

(b) Diluted

Diluted loss per Share was calculated by adjusting the weighted average number of Shares outstanding to assume conversion of all dilutive potential Shares. No diluted loss per Share for the Three-Month Period was presented as all the Options expired during the year ended 31st December 2013 and there were no outstanding options as at 31st March 2014. As at 31st March 2013, the Company had Options as dilutive potential Shares. A calculation was done to determine the number of Shares that could have been acquired at fair value (determined as the average market Share price of the Shares) based on the monetary value of the subscription rights attached to the outstanding Options. The number of Shares calculated as above was compared with the number of Shares that would have been issued assuming the exercise of the Options. The conversion of all potential Shares arising from the Options would have an anti-dilutive effect on the loss per Share for the three months ended 31st March 2013. Accordingly, diluted loss per Share was identical to basic loss per Share for the three months ended 31st March 2013.

3 Dividends

The Directors do not recommend payment of an interim dividend for the Three-Month Period (three months ended 31st March 2013: nil).

4 Reserves

	Contributed surplus HK\$'000	Other reserve HK\$'000	Capital redemption reserve HK\$'000	Available-for-sale investments HK\$'000	Merger reserve HK\$'000	Statutory reserve HK\$'000	Translation HK\$'000	Total HK\$'000	Retained earnings/ (accumulated losses) HK\$'000
As at 1st January 2013	97,676	4,178	702	90,661	35,549	49	3,178	231,993	3,525
Revaluation - gain	—	—	—	(3,930)	—	—	—	(3,930)	—
Currency translation differences	—	—	—	—	—	—	7	7	—
Loss for the three months ended 31st March 2013	—	—	—	—	—	—	—	—	(6,486)
As at 31st March 2013	97,676	4,178	702	86,731	35,549	49	3,185	228,070	(2,961)
As at 1st January 2014	97,676	4,178	702	89,884	35,549	49	3,352	231,390	(12,670)
Revaluation - gain	—	—	—	346	—	—	—	346	—
Currency translation differences	—	—	—	—	—	—	(79)	(79)	—
Loss for the Three-Month Period	—	—	—	—	—	—	—	—	(6,172)
As at 31st March 2014	97,676	4,178	702	90,230	35,549	49	3,273	231,657	(18,842)

BUSINESS REVIEW

Business in Macao and Hong Kong

The Three-Month Period is a mixed quarter for the Group. Similar to previous years, the initial months of the year continued to be traditional slow for the Group in generating business, especially from the Government of Macao, yet Vodatel Holdings Limited, incorporated in BVI with limited liability and a direct wholly-owned subsidiary of the Company, has been fully engaged in the delivering of the project to design, supply, installation, testing, commissioning and maintenance of the surveillance system at the Galaxy Resort. During the Three-Month Period, in addition to renewing the annual maintenance support services of various projects for the Government of Macao, approaching the latter part of the Three-Month Period, the Group began to witness increasing orders from the Government of Macao and different gaming operators in the areas of surveillance, trunking radio, server and storage systems, data and office networks, firewall and storage, backup, blade server systems and networking infrastructure, adding in over HK\$30,000,000 of contracts to the order book of the Group. Among the orders secured included an order of approximately HK\$3,000,000 from a gaming operator to upgrade its PABX system at their existing hotels and to install new PABX systems at their new hotels that are currently under construction.

TSTSH

TSTSH began the year on a positive footing with approximately HK\$20,000,000 worth of contracts added to its order book. Among the contracts secured included wins from telecommunications service providers in the provinces of Guangdong, Jiangxi, Jiangsu, Shanxi, Shandong and Hubei, municipalities of Shanghai and Chongqing and autonomous region of Inner Mongolia to install various modules of its CNMS and to integrate existing module of CNMS with new customised software applications. Also among the new contracts won is a project from an armed police force in PRC, other than the regions of Hong Kong, Macao and Taiwan, to install the operational control and duty carrying information system of TSTSH, this contract of which worth over HK\$8,000,000.

During 2013, to further expand its market reach, TSTSH entered into a profit-sharing arrangement with a telecommunications service provider in the province of Guangdong. Revenue generated from the deployment of its CNMS at the telecommunications service provider will be based on a profit-sharing model over the total data traffic running over the networks. During the Three-Month Period, approximately HK\$500,000 of income has been generated.

TTSA

During the Three-Month Period, affected by competition, TTSA generated revenue of HK\$91,424,000, with earnings before interest, tax, depreciation and amortisation dropped of HK\$35,044,000 and a net loss of HK\$4,124,000. During the Three-Month Period, TTSA passed the resolution not to pay out any dividends to its shareholders during 2014 against its operating results of 2013. Such decision is made as a means to ensure that TTSA maintains adequate financial and operational flexibility to defend its competitive market positioning against the competition from the two new operators.

Financial Review

In view of the traditional slower months witnessed during the beginning of the year yet attributable to the booking of partial revenue in relation to the major surveillance project at the Galaxy Resort, the Group generated revenue of HK\$58,310,000 for the Three-Month Period, or approximately 40.80% increase over the three months of the preceding period. With gross profit margin improving slightly from 23.20% of the preceding period to 24.69% for the Three-Month Period, the Group registered a hike of approximately 49.83% with gross profit reaching HK\$14,397,000. Faced with high salary costs in order to retain talents in Macao and the need to add in workforce on short-term engagements to cope with the works to complete the major surveillance project at the Galaxy Resort, total selling, marketing and administrative expenses were pushed by almost HK\$4,000,000, or over 20%, to HK\$22,651,000. Coupled with continued suspension of dividends from TTSA, the Group reported net loss of HK\$7,701,000 for the Three-Month Period.

The Group continued to enjoy a strong and healthy capital structure. Due to strong recoverability of its trade receivables, despite the need of working capital to support the major surveillance project at the Galaxy Resort, as at 31st March 2014, the Group has cash balances (including pledged bank deposits) and yield-enhanced financial instruments of over HK\$150,000,000, or approximately HK\$0.24 per Share.

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

As at 31st March 2014, the relevant interests and short positions of the Directors or Chief Executive 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	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Settlor of a discretionary trust (note 1)	301,538,000	49.12
Yim Hong	Personal (note 2)	7,357,500	1.20
Kuan Kin Man	Personal (note 3)	22,112,500	3.60
Monica Maria Nunes	Personal (note 4)	2,452,500	0.40
Fung Kee Yue Roger	Personal (note 5)	210,000	0.03

Notes:

- As at 31st March 2014, 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 HSBCITL, which is a trustee of the existing trust whereby the family members of José Manuel dos Santos (the settlor of the trust) were the discretionary objects and which assets included a controlling stake of 49.12% of the issued share capital of the Company.
- The personal interest of Yim Hong comprised 7,357,500 Shares. The aforesaid interest was held by Yim Hong as beneficial owner.
- The personal interest of Kuan Kin Man comprised 22,112,500 Shares. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- The personal interest of Monica Maria Nunes comprised 2,452,500 Shares. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- The personal interest of Fung Kee Yue Roger comprised 210,000 Shares. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND 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 2014, 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 Executive:

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 interest (note 1)	301,538,000	49.12
OHHL	Corporate interest (note 1)	301,538,000	49.12
HSBCITL	Corporate interest (note 1)	301,538,000	49.12
Lei Hon Kin	Family interest (note 2)	301,538,000	49.12

Notes:

- 1 As at 31st March 2014, 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 HSBCITL, being the trustee of the existing trust.
- 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 2014, 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 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

“Associate”	has the meaning ascribed thereto in the GEM Listing Rules
“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 share of that class
“Board”	the board of Directors (not applicable to Main Board)
“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
“CNMS”	customer network management system
“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
“Galaxy Resort”	Galaxy Resort & Casino, Cotai City, Macao
“GEM”	the Growth Enterprise Market operated by the Exchange

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM made by the Exchange from time to time
“Group”	the Company and its subsidiaries
“HK cent”	Hong Kong Cent, where 100 HK cents equal HK\$1
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong
“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)
“HSBCITL”	HSBC International Trustee Limited, a company incorporated in BVI with limited liability
“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
“OHHL”	Ocean Hope Holdings Limited, a company incorporated in BVI with limited liability
“Option”	a right to subscribe for the Shares granted pursuant to the share option scheme approved by the holders of the Shares at a special general meeting on 5th November 2002
“PABX”	private automatic branch exchange
“PRC”	The People’s Republic of China
“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”	in relation to a company means 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 2014
“TSTSH”	泰思通軟件(上海)有限公司, incorporated in PRC with limited liability and an indirectly owned subsidiary of the Company
“TTSA”	Timor Telecom, S.A., a company incorporated in the Democratic Republic of Timor-Leste with limited liability

By order of the Board
José Manuel dos Santos
Chairman

Macao, 13th May 2014

Executive Directors

José Manuel dos Santos
Yim Hong
Kuan Kin Man
Monica Maria Nunes

Independent Non-Executive Directors

Fung Kee Yue Roger
Wong Tsu An Patrick
Tou Kam Fai