



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

2018

* *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

- Boosted by the revenue generated from the service component of the surveillance project and data network infrastructure project for the local gaming operator, the Group reported revenue of HK\$83,848,000 for the Three-Month Period or an increase of 10.75% over the corresponding period of last year
- Gross profit margin improved to 23.92%, with gross profit increased to HK\$20,059,000 while net loss of the Group narrowed to HK\$4,616,000
- Both VHL and MDL focused on the Government of Macao, adding over HK\$20,000,000 new contracts to its orders book
- Continued to enjoy strong business momentum from business generated from Mainland China, with approximately HK\$34,000,000 worth of contracts secured during the Three-Month Period. Total contracts secured during 2017 was HK\$25,000,000
- Cash and cash equivalents and yield-enhanced financial instruments totalled HK\$134,015,000, 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 2017 HK\$'000
Revenue		83,848	75,709
Cost of sales		(63,789)	(60,335)
Gross profit		20,059	15,374
Selling, marketing costs and administrative expenses		(25,683)	(25,960)
Other income		434	—
Operating loss		(5,190)	(10,586)
Finance income		574	651
Loss before income tax		(4,616)	(9,935)
Income tax expense	1	—	—
Loss for the period		(4,616)	(9,935)
Loss is attributable to:			
Owners of the Company		(4,441)	(8,391)
Non-controlling interests		(175)	(1,544)
		(4,616)	(9,935)
Loss per Share attributable to ordinary equity holders of the Company:		HK Cent	HK Cents
Basic and diluted loss per Share	2	(0.72)	(1.37)
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 2017: 16.5% for all assessable profits). 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 2017 HK\$'000
Loss attributable to ordinary equity holders of the Company used in calculating basic loss per Share	<u>(4,441)</u>	<u>(8,391)</u>

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

	Three-Month Period	Three months ended 31st March 2017
Weighted average number of Shares used as the denominator in calculating basic loss per Share (thousands)	<u>614,435</u>	<u>614,284</u>

(d) Information concerning the classification of Options

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. Options were not included in the determination of basic loss per Share.

The 51,376,000 Options granted on 26th September 2016 were not included in the calculation of diluted loss per Share because they were antidilutive for the Three-Month Period. These Options could potentially dilute basic 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 2017: nil).

4 Reserves

	Contributed surplus	Share-based payments	Capital redemption reserve	Available-for-sale financial assets	Merger reserve	Statutory reserve	Foreign currency translation	Total other reserves	Retained earnings
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
As at 1st January 2017	97,676	7,442	702	12,170	35,549	49	2,913	156,501	21,042
Revaluation - gain	—	—	—	420	—	—	—	420	—
Currency translation differences	—	—	—	—	—	—	11	11	—
Loss for the three months ended 31st March 2017	—	—	—	—	—	—	—	—	(8,391)
As at 31st March 2017	97,676	7,442	702	12,590	35,549	49	2,924	156,932	12,651
As at 1st January 2018	97,676	7,442	702	489	35,549	49	2,914	144,821	10,071
Revaluation - loss	—	—	—	(605)	—	—	—	(605)	—
Currency translation differences	—	—	—	—	—	—	(13)	(13)	—
Loss for the Three-Month Period	—	—	—	—	—	—	—	—	(4,441)
As at 31st March 2018	97,676	7,442	702	(116)	35,549	49	2,901	144,203	5,630

Business Review

Business in Macao, Hong Kong and Mainland China

Similar to previous years, subsequent to a strong fourth quarter of the preceding year, the Group reverted to its normal business pattern where the initial months of the calendar year were categorised as slower months for business. During the Three-Month Period, VHL focused on finishing off the outstanding works related to the two major projects that involved the deployment of a surveillance system and data network infrastructure for a local gaming operator at its new gaming and hospitality complex in the Cotai Strip and which successfully commenced operations in February 2018. With respect to the HK\$42,000,000 project from the Transport Bureau to install smart cameras and the associated traffic management system at various road junctions in Macao, as all equipment associated with the project had been delivered in 2017, during the Three-Month Period, focus had been shifted to the preparation works for the eventual deployment of the actual installation.

As previously anticipated, generating business from the gaming operators has been challenging since many gaming operators already have established footprints in both Macao peninsula and Cotai Strip, they move their business focus from investment in building new properties to competition for visitors and improvement of gaming revenue. With this challenging environment expected to continue, the Group geared its business focus to the Government of Macao. During the Three-Month Period, VHL successfully secured a project to supply and install a surveillance system for the Customs Service and was awarded a contract to supply and build a complete extra-low voltage system for the Athlete Training Centre in Macao, whereas MDL won multiple contracts to supply and install data networks and a server system for a data centre operator in Macao. Aggregate value of these mentioned contracts amounted over HK\$20,000,000.

In Mainland China, subsequent to the shift to focus on the area of construction of data networks infrastructure, total contracts secured by the Group in 2017 grew four times from 2016 to HK\$25,000,000. During 2018, the Group continued to enjoy strong momentum with approximately HK\$34,000,000 worth of contracts secured during the Three-Month Period from providers of Internet value added services and reputable Chinese enterprises in the sectors of insurance, securities and banking. In addition, during the Three-Month Period, the Group secured its second software-defined networking in a wide area network project from an Internet service provider in Shenzhen, Guangdong with value of contract amounted over HK\$500,000.

Other Investments

TTSA The operating performance of TTSA continued to suffer with revenue of HK\$58,841,000 and earnings before interest, tax, depreciation and amortisation of HK\$21,694,000 reported during the Three-Month Period, which represented an almost stagnant and a drop of approximately 5.33% as compared to the three months ended 31st March 2017 respectively. Net loss widened from HK\$23,405,000 for the first three months of 2017 to HK\$27,320,000 for the Three-Month Period.

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

With the beginning of the fiscal year being traditional slower months for business, yet boosted by the revenue generated from the service component of the surveillance project and data network infrastructure project for the local gaming operator, the Group reported revenue of HK\$83,848,000 for the Three-Month Period, or an increase of 10.75% as compared to the same period of 2017. With service carrying higher margin, gross profit margin for the Three-Month Period improved from 20.31% for the three months ended 31st March 2017 to 23.92%, resulting in the gross profit of the Group increasing to HK\$20,059,000 for the Three-Month Period.

Salary costs remain the biggest cost element of the Group. Despite an average 4% salary increase to align inflation and to remain competitive among its peers, with 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. With improved gross profit margin and tighter cost control, net loss of the Group narrowed from HK\$9,935,000 for the first quarter of 2017 to HK\$4,616,000 for the Three-Month Period.

The Group continued to enjoy a strong and healthy capital structure with no external borrowings. As at 31st March 2018, cash and cash equivalents and yield-enhanced financial instruments totalled HK\$134,015,000, 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 2018, 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:

- 1 As at 31st March 2018, these Shares were held in the names of BEL, BSPL and ERL. The entire issued share capital in BEL and BSPL were held by José Manuel dos Santos. The entire issued share capital in ERL was held by OHHL, a company wholly-owned by José Manuel dos Santos.
- 2 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.
- 3 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.
- 4 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 2018, 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)	301,538,000	49.08
OHHL	Corporate (Note 1)	301,538,000	49.08
Lei Hon Kin	Family (Note 2)	357,945,500	58.26

Notes:

- As at 31st March 2018, 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.

COMPETING BUSINESS

As at 31st March 2018, 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: <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
“BEL”	Best Eastern Limited, a company incorporated in BVI with limited liability
“Board”	the board of Directors
“Brazil”	The Federative Republic of Brazil
“BSPL”	Back Support Properties Limited, a company incorporated in BVI with limited liability
“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”	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
“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
“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 2018
“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 a direct wholly-owned subsidiary of the Company

By order of the Board
José Manuel dos Santos
Chairman

Macao, 11th May 2018

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