



VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

THIRD 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 AND NINE-MONTH PERIOD

- Revenue reached HK\$148,127,000, representing an increase of 37.09% as compared to the same quarter of 2018. Total revenue for the Nine-Month Period reached HK\$337,121,000 or an increase of 17.23% as compared to the initial nine months of 2018 of HK\$287,562,000
- Due to increasing market competition, gross profit margin for the Three-Month Period dropped to 19.04% which pulled down the overall gross profit margin for the Nine-Month Period to 21.18%. Net profit of HK\$3,856,000 reported for the Three-Month Period with net loss for the Nine-Month Period further narrowing to HK\$3,189,000
- Facing with different challenging market conditions and the Group losing a long-term key gaming customer during the first quarter of 2019, aggregate of only approximately HK\$60,000,000 worth of contracts secured during the Three-Month Period
- No update over the proposed disposal of the equity participation in TTSA by Oi
- Net assets value of the Group amounted HK\$202,295,000 as at 30th September 2019 or HK\$0.33 per Share, with total net cash balances and yield-enhanced financial instruments at HK\$128,954,000
- The Directors do not recommend payment of interim dividend for the Nine-Month Period

THIRD QUARTER RESULTS

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

	Notes	Unaudited			
		Three-Month Period 2018 HK\$' 000	30th September 2018 HK\$' 000	Nine-Month Period 2018 HK\$' 000	Nine months ended 30th September 2018 HK\$' 000
Revenue		148,127	108,050	337,121	287,562
Cost of sales of goods		(99,984)	(69,656)	(218,741)	(177,347)
Cost of providing services		(19,943)	(18,288)	(46,962)	(45,904)
Gross profit		28,200	20,106	71,418	64,311
Selling, marketing costs and administrative expenses		(25,750)	(23,614)	(79,068)	(74,868)
Other gains		577	63	1,383	851
Operating profit/(loss)		3,027	(3,445)	(6,267)	(9,706)
Finance income		1,014	687	3,323	1,892
Finance costs		(64)	(42)	(119)	(67)
Finance income - net		950	645	3,204	1,825
Share of net profit of an associate accounted for using the equity method		3	—	3	—
Profit/(loss) before income tax		3,980	(2,800)	(3,060)	(7,881)
Income tax expense	1	(124)	—	(129)	(106)
Profit/(loss) for the period		3,856	(2,800)	(3,189)	(7,987)
Profit/(loss) is attributable to:					
Owners of the Company		3,907	(2,418)	(2,075)	(6,940)
Non-controlling interests		(51)	(382)	(1,114)	(1,047)
		3,856	(2,800)	(3,189)	(7,987)
Earnings/(loss) per Share for profit/(loss) attributable to the ordinary equity holders of the Company (expressed in HK cents per Share)					
Basic earnings/(loss) per Share	2	0.64	(0.39)	(0.34)	(1.13)
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 Nine-Month Period (nine months ended 30th September 2018: same). Taxation on non-Hong Kong profits was calculated on the estimated assessable profits for the Nine-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 Nine-Month Period.

(b) Loss used in calculating loss per Share

	Nine-Month Period HK\$' 000	Nine months ended 30th September 2018 HK\$' 000
Loss attributable to ordinary equity holders of the Company used in calculating basic loss per Share	<u><u>(2,075)</u></u>	<u><u>(6,940)</u></u>

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

Weighted average number of Shares used as the denominator in calculating basic loss per Share (thousands)	<u><u>614,435</u></u>	<u><u>614,435</u></u>
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3 Dividends

The Directors do not recommend payment of an interim dividend for the Nine-Month Period (nine months ended 30th September 2018: nil).

4 Reserves

	Contributed surplus	Share-based payments	Capital redemption reserve	FVOCI	Merger reserve	Statutory reserve	Foreign currency translation	Total other reserves	Retained earnings/(accumulated losses)
	HKS' 000	HKS' 000	HKS' 000	HKS' 000	HKS' 000	HKS' 000	HKS' 000	HKS' 000	HKS' 000
As at 1st January 2018	97,676	7,442	702	489	35,549	49	2,914	144,821	10,071
Revaluation – loss	–	–	–	(1,847)	–	–	–	(1,847)	–
Currency translation differences	–	–	–	–	–	–	150	150	–
Dividend relating to 2017	–	–	–	–	–	–	–	–	(6,144)
Loss for the nine months ended 30th September 2018	–	–	–	–	–	–	–	–	(6,940)
As at 30th September 2018	<u>97,676</u>	<u>7,442</u>	<u>702</u>	<u>(1,358)</u>	<u>35,549</u>	<u>49</u>	<u>3,064</u>	<u>143,124</u>	<u>(3,013)</u>
As at 1st January 2019	97,676	7,442	702	(1,966)	35,549	49	2,889	142,341	3,529
Revaluation – gain	–	–	–	3,019	–	–	–	3,019	–
Currency translation differences	–	–	–	–	–	–	(90)	(90)	–
Transfer of gain on disposal of equity investments at FVOCI to retained earnings	–	–	–	(831)	–	–	–	(831)	831
Dividend relating to 2018	–	–	–	–	–	–	–	–	(3,072)
Loss for the Nine-Month Period	–	–	–	–	–	–	–	–	(2,075)
As at 30th September 2019	<u>97,676</u>	<u>7,442</u>	<u>702</u>	<u>222</u>	<u>35,549</u>	<u>49</u>	<u>2,799</u>	<u>144,439</u>	<u>(787)</u>

BUSINESS REVIEW

Business in Macao, Hong Kong and Mainland China

Getting into the Three-Month Period, the markets that the Group operates have gotten increasingly challenging, attributable to Mainland China being continuously shadowed by the trade tensions with USA and Hong Kong experiencing prolonged social unrest. In Macao, with only two mega resorts still under construction by gaming operators, together with a new Chief Executive taking office in December 2019 and with possible changes to the existing cabinet of secretaries, local market activities have become less robust. Faced with different market challenges and the Group losing a long-term key gaming customer during the first quarter of 2019 in a tender where the gaming operator opted for a different surveillance vendor than the Group represents, for the Three-Month Period, the Group just secured an aggregate of approximately HK\$60,000,000 worth of contracts in Macao and Hong Kong, including additional contracts from a gaming operator to supply and install surveillance edge devices for one of its premises currently under renovation. Despite so, the Group has observed new business prospects brought by the introduction of new gaming regulations that called for all gaming operators to further enhance video coverage at the gaming floors and new opportunities from second-tier telecommunications service providers for a software-defined networking in a wide area network product that the Group actively promotes since last year that will allow telecommunications service providers to offer both bandwidth expansion as well as direct optimal access to their end users, cloud applications and data.

At Mega Datatech Limited, incorporated in Macao with limited liability and an indirect wholly-owned subsidiary of the Company, business picked up during the Three-Month Period, with contracts secured from different departments under the Government of Macao, including the Public Administration and Civil Service Bureau, the Judiciary Bureau, the Public Security Forces Affairs Bureau, the Housing Bureau, to name a few, for the delivery of solutions in the areas of servers, storage, networks, customised software and maintenance support services with approximately HK\$39,000,000 worth of equipment and maintenance service contracts received. Among the projects won included two switches revamp and network expansion projects with one project for a local utility and the other for a major university.

In Mainland China, other than the continual support of 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”, during the Three-Month Period, the Mainland China team successfully added two local communications service providers to its list of clientele, including a provider of integrated telecommunications services and a provider of communications services over nationwide Internet Protocol/Multiprotocol Label Switching networks. Total contracts secured during the Three-Month Period exceeded HK\$10,000,000. As for the operating performance of 泰思通軟件(上海)有限公司 and 泰思通軟件(江西)有限公司, both incorporated in PRC with limited liability and indirect subsidiaries of the Company, although business remained stagnant during the Three-Month Period, business gaining momentum have been witnessed in October.

Other Investments – TTSA

The operating performance of TTSA seemed to have continued to stabilise, with this observation supported by revenue generated during the Three-Month Period of HK\$47,998,000 representing only a 1.83% drop as compared to the same period of 2018 and a mere 0.43% as compared to the second quarter of 2019. Similarly, earnings before interest, taxation, depreciation and amortisation of HK\$18,548,000 for the Three-Month Period represented a decline of 4.57% as compared to the same period of 2018 and just 0.91% as compared to the second quarter of 2019. The net loss reported by TTSA for the Three-Month Period was HK\$11,299,000 which narrowed from the net loss of the second quarter of 2019 of HK\$14,937,000.

During the Three-Month Period, there is no update regarding the disposal of the shareholding of Oi in TTSA. The Group will continue to keep close watch of any latest developments.

FINANCIAL REVIEW

Attributable to the completion of various projects secured during 2018, the Group continued to report positive results for the Three-Month Period with revenue for the Three-Month Period reaching HK\$148,127,000, representing an increase of 37.09% as compared to the same quarter of 2018. With a stronger quarter, total revenue for the Nine-Month Period reached HK\$337,121,000 or an increase of 17.23% as compared to the initial nine months of 2018 of HK\$287,562,000. With the market getting more competitive and yet to maintain the market position of the Group, gross profit margin for the Three-Month Period dropped to 19.03% which pulled down the overall gross profit margin for the Nine-month Period to 21.18%, which further trailed behind the average gross profit margin of approximately 25% achieved over the past years.

During the Three-Month Period, despite an increase in selling and marketing costs and administrative expenses due to write-offs of some long overdue receivables and the need to effect additional insurance coverage for the equipment stocked up to support different major projects, the Group generated net profit of HK\$3,856,000 for the Three-Month Period as compared to net loss of HK\$2,800,000 reported during the same corresponding three months of 2018. With another profit-making quarter, net loss of the Group for the Nine-Month Period further narrowed to HK\$3,189,000.

The Group continued to enjoy a healthy capital structure with minimum leverage on external borrowing. Net assets value of the Group amounted HK\$202,295,000 as at 30th September 2019 or HK\$0.33 per Share.

During the Three-Month Period, the Group disposed of its 15% equity investment in a private company that the Group invested in prior years to support start-ups in Macao, for approximately HK\$1,900,000, bringing total net cash balances and yield-enhanced financial instruments to HK\$128,954,000 as at 30th September 2019, which represented approximately 31% of total assets. Despite the comfortable cash position of the Group, to support business expansion and to reserve cash as working cash, the Directors do not propose an interim dividend to be paid out for the Nine-Month Period.

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

As at 30th September 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	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	3.60
Monica Maria Nunes	Personal (Note 3)	2,452,500	0.40
Fung Kee Yue Roger	Personal (Note 4)	210,000	0.03

Notes:

- 1 As at 30th September 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 Manel dos Santos.
- 2 The personal interest of Kuan Kin Man comprised 22,112,500 Shares. 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. 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. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.

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

The register of Substantial Shareholders required to be kept under Section 336 of Part XV of SFO showed that as at 30th September 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 30th September 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 30th September 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 Nine-Month Period. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the Nine-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 shares of that class
“Board”	the board of Directors (not applicable to Main Board)
“Brazil”	The Federative Republic of Brazil
“BVI”	the British Virgin Islands
“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 (not applicable to New York Stock Exchange)
“FVOCI”	fair value through other comprehensive income
“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
“Nine-Month Period”	nine months ended 30th September 2019
“OHHL”	Ocean Hope Holdings Limited, a company incorporated in BVI with limited liability
“Oi”	Oi S.A. – In Judicial Reorganisation, a company incorporated in Brazil with limited liability and whose shares are listed on the New York Stock Exchange in USA and BM&FBOVESPA in Brazil
“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”	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
“Three-Month Period”	three months ended 30th September 2019
“TTSA”	Timor Telecom, S.A., a company incorporated in the Democratic Republic of Timor-Leste with limited liability
“USA”	The United States of America

By order of the Board
Monica Maria Nunes
Deputy Chairman

Macao, 11th November 2019

Executive Directors

José Manuel dos Santos
Kuan Kin Man
Monica Maria Nunes

Independent non-executive Directors

Fung Kee Yue Roger
Wong Tsu Au Patrick
Tou Kam Fai