



**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**

**2020**

\* *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**

- Although business activities were severely interrupted by the COVID-19 pandemic, riding on the strong order book carried forward from 2019, the Group registered revenue of HK\$90,264,000 for the Three-Month Period, or an increase of 16.43% as compared to the corresponding period of 2019 of HK\$77,524,000
- As mix of revenue slightly geared towards hardware components which carries lower margin, gross profit margin of the Group was 19.94%
- Leveraging on the technical flexibility of the technical teams to take on site works that would have outsourced in the past, net loss for the Three-Month Period narrowed considerably from HK\$12,013,000 for the three months ended 31st March 2019 to HK\$5,169,000 for the Three-Month Period
- With business interrupted by the pandemic, the Group added only approximately HK\$68,000,000 to its order book
- Prospects of SD-WAN infrastructure have remained encouraging as witnessed by business activities in Hong Kong and Mainland China picking up since March
- With the strong support of the vendor, the Group secured a major contract of AI-driven wireless Wi-Fi solution, worth over HK\$4,000,000, from an Internet service provider in the municipality of Shanghai
- The Group continues to enjoy a solid and healthy capital structure with no external borrowings with cash and cash equivalents and yield-enhanced financial instruments totalled HK\$121,445,000 as at 31st March 2020. Equity base stood comfortably at HK\$186,253,000
- 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, which was reviewed by the audit committee of the Company, as follows:

		<b>Unaudited</b>	
		<b>Three-Month Period HK\$' 000</b>	Three months ended 31st March 2019 HK\$' 000
Revenue from contracts with customers		<b>90,264</b>	77,524
Cost of sales of goods		<b>(58,348)</b>	(52,513)
Cost of providing services		<b>(13,918)</b>	(13,091)
<b>Gross profit</b>		<b>17,998</b>	11,920
Selling, marketing costs and administrative expenses		<b>(24,150)</b>	(25,282)
Other gains, net		<b>154</b>	237
<b>Operating loss</b>		<b>(5,998)</b>	(13,125)
Finance income		<b>862</b>	1,139
Finance costs		<b>(33)</b>	(27)
Finance income – net		<b>829</b>	1,112
<b>Loss before income tax</b>		<b>(5,169)</b>	(12,013)
Income tax expense	1	–	–
<b>Loss for the period</b>		<b>(5,169)</b>	(12,013)
Loss is attributable to:			
Owners of the Company		<b>(4,489)</b>	(11,316)
Non-controlling interests		<b>(680)</b>	(697)
		<b>(5,169)</b>	(12,013)
<b>Loss per Share for loss attributable to the ordinary equity holders of the Company:</b>		<b>HK Cent</b>	HK Cents
Basic and diluted loss per Share	2	<b>(0.73)</b>	(1.84)
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 2019: 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

	<b>Three-Month Period HK\$' 000</b>	Three months ended 31st March 2019 HK\$' 000
Loss attributable to the ordinary equity holders of the Company used in calculating basic loss per Share	<u><u>(4,489)</u></u>	<u><u>(11,316)</u></u>

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

	<b>Three-Month Period</b>	Three months ended 31st March 2019
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>

#### (d) Diluted loss per Share

Diluted loss per Share was calculated by adjusting the weighted average number of Shares outstanding to assume conversion of all dilutive potential Shares. For the period ended 31st March 2019, the computation of diluted loss per Share did not assume the exercise of the outstanding options to subscribe for Shares pursuant to the share option scheme approved by the holders of the Shares at the annual general meeting on 22nd June 2012 since it would reduce loss per Share.

### 3 Dividends

The Directors do not recommend payment of interim dividend for the Three-Month Period (three months ended 31st March 2019: nil).

### 4 Reserves

	Contributed surplus HK\$'000	Share-based payments HK\$'000	Capital redemption reserve HK\$'000	Financial assets at fair value through other comprehensive income 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 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 months ended 31st March 2019	—	—	—	—	—	—	—	—	(11,316)
As at 31st March 2019	<u>97,676</u>	<u>7,442</u>	<u>702</u>	<u>630</u>	<u>35,549</u>	<u>49</u>	<u>2,753</u>	<u>144,801</u>	<u>(7,787)</u>
As at 1st January 2020	97,676	7,442	702	1,278	35,549	49	2,782	145,478	(3,970)
Revaluation - loss	—	—	—	(7,916)	—	—	—	(7,916)	—
Currency translation differences	—	—	—	—	—	—	178	178	—
Loss for the Three-Month Period	—	—	—	—	—	—	—	—	(4,489)
As at 31st March 2020	<u>97,676</u>	<u>7,442</u>	<u>702</u>	<u>(6,638)</u>	<u>35,549</u>	<u>49</u>	<u>2,960</u>	<u>137,740</u>	<u>(8,459)</u>

## **BUSINESS REVIEW**

### **Business in Macao, Hong Kong and Mainland China**

While the initial months of the fiscal year generally categorised as slower months, in particular with business generated from the Government of Macao, successfully riding on the strong momentum of 2019 where the Group achieved its highest level of contracts secured over the past five years, the Group made good progress in 2020 with HK\$35,000,000 of new works added in just January. However, such momentum was interrupted by the COVID-19 pandemic, resulting in business activities across Macao, Hong Kong and Mainland China being severely affected, in particular in February. Getting into March, the Group began to gradually pick up its business activities and closed off the first quarter of 2020 with approximately HK\$68,000,000 added to its order book during the Three-Month Period.

In Macao, contracts secured during the Three-Month Period included mainly works from different gaming operators and government departments, including but not limited to the Housing Bureau, Social Security Fund, Public Security Forces Affairs Bureau, Cultural Affairs Bureau, Macao Post and Telecommunications Bureau, DICJ, to name a few, with scope of contracts covering networks infrastructure, surveillance, servers and storage, firewall and annual maintenance services. In the midst of the pandemic, the Group witnessed new orders received to enhance IT infrastructure of different government departments to allow civil servants to “work from home” in a more efficient and secured manner.

Since many business activities were in a virtual standstill during February and March, taking advantage of the quiet gaming floors at different gaming premises due to travelling restrictions, the Group made an effort to elevate the completion of works for different gaming operators, in particular those works secured to meet the minimum internal control requirements introduced by DICJ in Macao as a means to enhance surveillance coverage at gaming floors. Worth noting is that due to lack of tourists and quarantine measures imposed by the Government of Macao on incoming visitors, and with an unknown as to when travelling and entry restrictions will be lifted by different governments, it is expected that different gaming operators will be extremely cautious with their capital expenditures in 2020.

With respect to SD-WAN infrastructure, prospects have remained encouraging as witnessed by business activities from different leading network communication services providers and Internet service providers in Hong Kong and Mainland China picking up since March. During 2019, the Group started to promote a new product, AI-driven wireless Wi-Fi solution, and with the strong support of the vendor, the Group secured its first contract in June from an international cloud communications provider. With continuous effort to promote this product and working in collaboration with the respective vendor, in March, the Group was awarded a major contract, worth over HK\$4,000,000, from an Internet service provider in the municipality of Shanghai.

Among all the operating entities affected by the pandemic, TSTSH and TSTJX have been hit hardest as all marketing activities have been put to a complete halt with just one mere contract received during the Three-Month Period. The research and development activities have been adversely impacted due to travelling restrictions and also self-quarantine measures to be followed by all returning employees to Shanghai and Jiangxi after Chinese New Year.

#### **Other Investments – TTSA**

The operating performance of TTSA remains lacklustre. During the Three-Month Period, revenue levelled at approximately HK\$47,000,000 while earnings before interest, tax, depreciation and amortisation dropped to HK\$16,226,000 for the Three-Month Period as compared to HK\$19,598,000 for the preceding period of 2019.

There is no news regarding the development about 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 the disposal of the shareholding of its interests in TTSA. The Group will continue to keep close watch of any latest updates.

## FINANCIAL REVIEW

Although business activities severely interrupted by the COVID-19 pandemic, coupled with the initial months of a fiscal year being categorised as slower months for business, attributable to a strong order book carried forward from 2019, the Group registered revenue of HK\$90,264,000 for the Three-Month Period, or an increase of 16.43% as compared to the corresponding period of 2019 of HK\$77,524,000. As mix of revenue slightly geared towards hardware components which carries lower margin, gross profit margin of the Group was 19.94%, translating to gross profit of HK\$17,998,000 for the Three-Month Period.

Salary costs remain the biggest cost element of the Group and an average of 3% salary increase was offered to the employees in January 2020 to align inflation and to remain competitive against its peers. In February and March, with reduced business activities and different technical teams not working at their full capacity, the Group leveraged on their technical flexibility to take on site works that would have outsourced in the past. As a result, total selling, marketing costs and administrative expenses narrowed from HK\$25,282,000 for the first quarter of 2019 to HK\$24,150,000 for the Three-Month Period.

Despite in the midst of the pandemic, with higher revenue due to a strong order book carried forward from 2019, improved gross profit margin and lower operating expenses, net loss for the Three-Month Period narrowed considerably from HK\$12,013,000 for the first three months of 2019 to HK\$5,169,000. As above-mentioned, TSTSH and TSTJX were hit hardest by the pandemic and approximately HK\$2,000,000 of the net loss of HK\$5,169,000 was attributable to these two entities.

The Group continues to enjoy a solid and healthy capital structure with no external borrowings. As at 31st March 2020, cash and cash equivalents and yield-enhanced financial instruments totalled HK\$121,445,000, accounting for approximately 34.07% of the total assets of the Group. Equity base stood comfortably at HK\$186,253,000.

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

As at 31st March 2020, 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**

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number of Shares held</b>	<b>Approximate % of the issued share capital of the Company</b>
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:*

- As at 31st March 2020, 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. 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/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 2020, 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**

<b>Name</b>	<b>Nature of interest</b>	<b>Number of Shares held</b>	<b>Approximate % of the issued share capital of the Company</b>
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 2020, 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 2020, 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

“AI”	artificial intelligence
“Associated Corporation”	a corporation: <ol style="list-style-type: none"><li>1 which is a subsidiary or holding company of the Company or a subsidiary of the holding company of the Company; or</li><li>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</li></ol>
“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
“DICJ”	Direcção de Inspeção e Coordenação de Jogos (Gaming Inspection and Coordination Bureau)
“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
“OHHL”	Ocean Hope Holdings Limited, a company incorporated in BVI with limited liability
“PRC”	The People’s Republic of China
“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 2020
“TSTJX”	泰思通軟件(江西)有限公司 incorporated in PRC with limited liability and an indirect subsidiary of the Company
“TSTSH”	泰思通軟件(上海)有限公司 incorporated in PRC with limited liability and an indirect 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, 12th May 2020

<b>Executive Directors</b>	<b>Non-executive Director</b>	<b>Independent non-executive Directors</b>
José Manuel dos Santos Kuan Kin Man Monica Maria Nunes	Ho Wai Chung Stephen	Fung Kee Yue Roger Wong Tsu An Patrick Wong Kwok Kuen