



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

2023

* *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 THREE-MONTH PERIOD

- With the initial months of any year traditionally slow for new business, coupled with only small improvements to the delivery lead time of over HK\$70,000,000 of backlogs of switches and high-end routers, the Group generated revenue of HK\$85,399,000, or a drop of 3.45% as compared to HK\$88,453,000 for the first quarter of 2022
- Loss for the period widened to HK\$10,619,000 as a result of weak revenue base, increase of selling, marketing and administrative expenses and full write-down to its HK\$2,353,000 holdings of AT1 bonds issued by CS Group
- MDL brought in HK\$28,700,000 worth of contracts from the Government of Macao and customers in other vertical markets
- Mainland China team brought in HK\$21,800,000 worth of contracts with SD-WAN infrastructure accounting for 65% of total contracts secured. End-users included a leading international financial services group and a leading international audit firm
- On 3rd May 2023, the Government of Timor-Leste entered into a conditional sale and purchase agreement with Oi for the purchase of its 57.06% in TTSA for cash payment of HK\$42,702,000 and assumptions of over HK\$123,005,000 worth of debts
- Equity base at HK\$199,796,000 as at 31st March 2023, with net cash balances and yield-enhanced financial instruments of HK\$102,838,000
- The Directors do not recommend payment of interim dividend for the Three-month Period

FIRST QUARTERLY 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	Three months ended
Notes	Period	31st March
	HK\$'000	2022
		HK\$'000
REVENUE	85,399	88,453
Costs of sales	(69,348)	(73,128)
Gross profit	16,051	15,325
Other (loss)/income and gains	(2,814)	83
Selling, marketing and administrative expenses	(25,552)	(22,427)
Operating loss	(12,315)	(7,019)
Finance income	882	819
Finance costs	(31)	(30)
Finance income, net	851	789
LOSS BEFORE TAX	(11,464)	(6,230)
Income tax credit	845	3
LOSS FOR THE PERIOD	(10,619)	(6,227)

		Unaudited	
			Three months ended
		Three-month	31st March
Notes		Period	2022
		HK\$'000	HK\$'000
Attributable to:			
	Owners of the parent	(10,609)	(5,453)
	Non-controlling interests	<u>(10)</u>	<u>(774)</u>
		<u>(10,619)</u>	<u>(6,227)</u>
 LOSS PER SHARE FOR LOSS ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT:			
	Basic loss per Share	2 (1.72 HK Cents)	(0.89 HK Cent)
	Diluted loss per Share	2 <u>(1.72 HK Cents)</u>	<u>(0.88 HK Cent)</u>
	Dividends	3 <u>–</u>	<u>–</u>

Notes to the condensed consolidated income statement

1 INCOME TAX

No Hong Kong profits tax were provided in the Three-month Period and prior periods as the Group had available tax losses brought forward from prior years. Taxes on profits assessable elsewhere were calculated at the rates of tax prevailing in the jurisdictions in which the Group operated.

2 ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per Share amounts was based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of Shares of 616,115,000 (three months ended 31st March 2022: 616,115,000) in issue during the Three-month Period.

The calculation of the diluted loss per Share amounts was based on the loss for the period attributable to ordinary equity holders of the parent. The weighted average number of Shares used in the calculation was the number of Shares in issue during the Three-month Period, as used in the basic loss per Share calculation, and the weighted average number of Shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential Shares into Shares.

The calculations of basic and diluted loss per Share were based on:

	Three-month Period HK\$'000	Three months ended 31st March 2022 HK\$'000
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic loss per Share calculation:	(10,609)	(5,453)

	Number of Shares	
	Three-month	Three
	Period	months ended
		31st March
		2022
Shares		
Weighted average number of Shares in issue during the period used in the basic loss per Share calculation (thousands)	616,115	616,115
Effect of dilution – weighted average number of Shares:		
Options (thousands)	<u>5,400</u>	<u>3,099</u>
	<u>621,515</u>	<u>619,214</u>

3 DIVIDENDS

The Directors do not recommend payment of interim dividend for the Three-month Period (three months ended 31st March 2022: nil).

4 RESERVES

	Contributed surplus	Share-based payments	Capital redemption reserve	Fair value reserve of financial assets at fair value through other comprehensive income	Merger reserve	Statutory reserve	Exchange fluctuation reserve	Accumulated losses	Total other reserves
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January 2022	97,676	7,282	702	(2,578)	35,549	49	4,996	(17,976)	125,700
Changes in fair value of debt instruments at fair value through other comprehensive income	-	-	-	(3,657)	-	-	-	-	(3,657)
Exchange differences related to foreign operations	-	-	-	-	-	-	(28)	-	(28)
Loss for the three months ended 31st March 2022	-	-	-	-	-	-	-	(5,453)	(5,453)
As at 31st March 2022	<u>97,676</u>	<u>7,282</u>	<u>702</u>	<u>(6,235)</u>	<u>35,549</u>	<u>49</u>	<u>4,968</u>	<u>(23,429)</u>	<u>116,562</u>
As at 1st January 2023	91,515	7,085	702	25,426	35,549	49	4,334	(12,319)	152,341
Changes in fair value of debt instruments at fair value through other comprehensive income	-	-	-	(873)	-	-	-	-	(873)
Reclassification to profit or loss-gross	-	-	-	3,019	-	-	-	-	3,019
Exchange differences related to foreign operations	-	-	-	-	-	-	(30)	-	(30)
Loss for the Three-month Period	-	-	-	-	-	-	-	(10,609)	(10,609)
As at 31st March 2023	<u>91,515</u>	<u>7,085</u>	<u>702</u>	<u>27,572</u>	<u>35,549</u>	<u>49</u>	<u>4,304</u>	<u>(22,928)</u>	<u>143,848</u>

BUSINESS REVIEW

Business in Macao, Hong Kong and Mainland China

Macao, Hong Kong and Mainland China remain the core operating markets of the Group with total contracts secured during the Three-month Period amounted HK\$83,300,000, or a drop of 19.47% as compared to total contracts secured during the first quarter of 2022. Initial months of any year traditionally are categorised as slower months for the Group. Impact was more imminent for 2023 due to lagging effect of the pandemic as a result of the governments in Macao and Mainland China putting an end to the zero-COVID policy in December 2022.

With all traffic restrictions lifted in January 2023, Macao saw a staggering growth in incoming tourists and welcomed one of the busiest quarters since the pandemic in 2020. Total number of arriving tourists jumped from 389,390 in December 2022 to 1,397,748 in January 2023, which further climbed to 1,956,867 in March 2023, whereas monthly gross revenue from games of fortune reported by DICJ for the Three-month Period almost doubled to HK\$33,584,000,000 as compared to HK\$17,231,000,000 for the corresponding first quarter of 2022.

In Macao, although the Macao team of Vodatel Holdings Limited, incorporated in BVI with limited liability and an indirect wholly-owned subsidiary of the Company, only brought in HK\$16,600,000 worth of new orders during the Three-month Period, the team has been working in close collaboration with selected gaming operators to explore avenues on how to upgrade and expand their existing surveillance systems to meet new guidelines from the local gaming authority. A proactive approach customarily taken by DICJ, the local gaming authority, will introduce or tighten standards to perfect the robust local gaming framework and best practice benchmarks so as to help the gaming industry to improve its legality, safety and reliability. As for MDL, business generated remains promising. During the Three-month Period, total contracts secured by MDL from the Government of Macao and customers in other vertical markets, such as banking, education, healthcare and insurance, reached HK\$28,700,000, or an increase of 16.27% over the corresponding period of 2022. Works cover areas of networks infrastructure, servers and storage, firewall and maintenance services and customers include Legal Affairs Bureau, Macao Post and Telecommunications Bureau, Judiciary Police, Transport Bureau, to name a few.

In Hong Kong, with local economic activities remained lacklustre, the Hong Kong team successfully secured HK\$13,500,000 worth of new contracts during the Three-month Period, or an increase of 17.95% over the same corresponding period of 2022. The growth was the result of securing a series of contracts,

totalled HK\$6,400,000, from a regional ICT solutions provider with presence in Mainland China and Asia Pacific Region, which called for the expansion and partial replacement of its network infrastructure in Mainland China. As for the managed services carried out by Meta-V, Meta-V continued to receive new contracts from a leading mobile provider with operating subsidiaries in Hong Kong and Macao. Total contracts of HK\$3,400,000 received during the Three-month Period.

Similar to the Macao market, the Mainland China market is also traditionally slow during the initial months of every year. Consequently, during the Three-month Period, total contracts that the Mainland China team brought in amounted only HK\$21,800,000, which fell short of the total contracts of HK\$23,100,000 secured during the first quarter of 2022. Business focus remains with SD-WAN and data networks infrastructure with SD-WAN infrastructure representing approximately 65% of total contracts secured during the Three-month Period. Among the end-users of the SD-WAN infrastructure projects were a leading international financial services group with over 40,000 employees and 116,000 agents and a leading international audit firm with a professional services networks in over 150 countries.

Other Investments

Tidestone Group – With respect to Tidestone Group, total works secured during the Three-month Period amounted approximately HK\$1,200,000, which were related to a contract from a telecommunications service provider in the municipality of Chongqing for the cloud-based of the fault management module of the network management system.

TTSA – During the Three-month Period, TTSA reported revenue of HK\$46,464,000, or a slight decrease of 2.72% as compared to HK\$47,764,000 for the first quarter of 2022. Earnings before interest, tax, depreciation and amortisation and net profit stood at HK\$2,450,000 and HK\$337,000 respectively, as compared to HK\$7,472,000 and HK\$5,211,000 for the same period of last year, the drop of which was explained by costs incurred from the renewal of software licence.

On 3rd May 2023, the Government of Timor-Leste entered into a conditional sale and purchase agreement with Oi for the purchase of its 57.06% in TTSA for cash payment of HK\$42,702,000 and assumptions of over HK\$123,005,000 worth of debts. The Group will continue to keep close watch of any latest developments, in particular in relation to the approval of the transaction by the Court of Auditors in Timor-Leste.

FINANCIAL REVIEW

With the initial months of the year traditionally slow for new business, coupled with only small improvements to the delivery lead time of over HK\$70,000,000 of backlogs of switches and high-end routers which are to be deployed for use at the data centres of a tier-one Internet technology leader that operates creative content platforms in Europe and North America, the Group only generated revenue of HK\$85,399,000 for the Three-month Period, or a drop of 3.45% as compared to HK\$88,453,000 for the first quarter of 2022. Despite gross profit margin improved slightly by 1.47 percentage points to 18.80%, keen competition from works generated from gaming operators and heated competition from other SD-WAN competitors continued to put pressure on gross profit margin of the Group.

Selling, marketing and administrative expenses increased by over HK\$3,000,000, attributable to sales commission payout and increased travelling expenses as employees resumed both local and overseas travelling to attend events and conferences hosted by different vendors and to arrange visits to customers to introduce and demonstrate new products and solutions. During the Three-month Period, the Group made a full write-down to its HK\$2,353,000 holdings of AT1 bonds subsequent to the official announcement made by the Swiss Financial Market Supervisory Authority on 20th March 2023 to write-down the AT1 bonds issued by CS Group.

As a result of weak revenue base, higher selling, marketing and administrative expenses and the full write-down of AT1 bonds issued by CS Group, loss of the Group for the Three-month Period widened to HK\$10,619,000.

The Group continues to enjoy a solid and healthy capital structure with no external borrowings. As at 31st March 2023, cash and cash equivalents and yield-enhanced financial instruments totalled HK\$102,838,000, accounting for approximately 28.18% of the total assets of the Group. Equity base stood comfortably at HK\$199,796,000.

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 2023, 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	–		58.10
Kuan Kin Man	Personal (Note 2)	22,952,500	–		3.73
Monica Maria Nunes	Personal (Note 3)	3,292,500	–		0.53
Ho Wai Chung Stephen	Personal (Note 4)	–	350,000		0.06
Fung Kee Yue Roger	Personal (Note 5)	210,000	350,000		0.09
Wong Tsu An Patrick	Personal (Note 6)	–	350,000		0.06
Wong Kwok Kuen	Personal (Note 7)	–	350,000		0.06

Notes:

- 1 As at 31st March 2023, 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 The personal interest of Kuan Kin Man comprised 22,952,500 Shares. The aforesaid interest was held by Kuan Kin Man as beneficial owner.
- 3 The personal interest of Monica Maria Nunes comprised 3,292,500 Shares. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.
- 4 The personal interest of Ho Wai Chung Stephen comprised 350,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Ho Wai Chung Stephen as beneficial owner.
- 5 The personal interest of Fung Kee Yue Roger comprised 210,000 Shares and 350,000 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.
- 6 The personal interest of Wong Tsu An Patrick comprised 350,000 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.
- 7 The personal interest of Wong Kwok Kuen comprised 350,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Wong Kwok Kuen 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 2023, 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	58.10
OHHL	Corporate (Note 1)	357,945,500	58.10
Lei Hon Kin	Family (Note 2)	357,945,500	58.10

Notes:

- 1 As at 31st March 2023, 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 2023, 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
“AT1”	Additional Tier 1
“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
“CHF”	Swiss franc, the lawful currency of Switzerland
“Close Associate”	has the meaning ascribed thereto in the GEM Listing Rules

“Company”	Vodatel Networks Holdings Limited
“CS Group”	Credit Suisse Group AG, a company incorporated in Switzerland with limited liability and whose shares of CHF0.04 each are listed on the SIX Swiss Exchange in Switzerland
“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”	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 (not applicable to CS Group, Credit Suisse Group AG and Tidestone Group)
“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
“Meta-V”	Meta-V Tech Services Limited, incorporated in Hong Kong 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
“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 the United States of America and B3 S.A. – Brasil, Bolsa, Balcão in Brazil
“Option”	an option 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
“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
“Switzerland”	The Swiss Confederation
“Three-month Period”	three months ended 31st March 2023
“Tidestone Group”	Capital Instant Limited, a company incorporated in BVI with limited liability and an indirect associate of the Company, and its subsidiaries
“Timor-Leste”	The Democratic Republic of Timor-Leste
“TTSA”	Timor Telecom, S.A., a company incorporated in Timor-Leste with limited liability

By order of the Board
José Manuel dos Santos
Chairman

Macao, 12th May 2023

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