



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

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 THE THREE-MONTH PERIOD AND NINE-MONTH PERIOD

- Attributable to a strong order book brought forward from 2022, the Group reported revenue of HK\$114,134,000 for the Three-month Period, bringing total revenue for the Nine-month Period to reach HK\$332,442,000, or an increase of 14.70% over the same comparable period of 2022
- Net profit of HK\$4,284,000 reported for the Three-month Period. Net loss of the Group for the Nine-month Period narrowed to HK\$6,394,000
- Rallying on the momentum of the strong and solid return of mass markets, during the Nine-month Period, the Macao team secured HK\$121,800,000 worth of contracts from different gaming operators as compared to HK\$37,400,000 for the same comparable period of 2022
- Shadowed by high interest environment and lack of strong growth drivers, the Hong Kong team received only HK\$37,300,000 worth of new contracts during the Nine-month Period, or a decline of approximately 40% as compared to the same corresponding period of 2022
- Outlook of Mainland China team remains challenging with a combined order book of HK\$81,300,000 of SD-WAN and data networks infrastructure business for the Nine-month Period as compared to HK\$206,600,000 for the same corresponding period of 2022
- For ten consecutive quarters, TTSA reports positive results. There is no further update in relation to the conditional sale and purchase of shareholding of Oi in TTSA to the Government of Timor-Leste
- Equity base at HK\$198,449,000 as at 30th September 2023 with total net cash balances and yield-enhanced financial instruments of HK\$105,182,000, or 26.88% of total assets
- 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 were reviewed by the audit committee of the Company, as follows:

		Unaudited			
		Three months ended 30th September 2022	Three- month Period September 2022	Nine months ended 30th September 2022	Nine months ended 30th September 2022
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	REVENUE	114,134	122,758	332,442	289,846
	Cost of sales	(86,657)	(91,397)	(266,647)	(224,119)
	Gross profit	27,477	31,361	65,795	65,727
	Other (loss)/income and gains	(200)	564	(3,565)	925
	Selling, marketing costs and administrative expenses	(23,901)	(19,971)	(72,183)	(66,350)
	Gain on sale of a subsidiary	-	-	-	5,667
	Operating profit/(loss)	3,376	11,954	(9,953)	5,969
	Finance income	975	840	2,837	2,453
	Finance costs	(21)	(9)	(77)	(52)
	Finance income, net	954	831	2,760	2,401
	PROFIT/(LOSS) BEFORE TAX	4,330	12,785	(7,193)	8,370
	Income tax (expense)/credit	(46)	14	799	25
	PROFIT/(LOSS) FOR THE QUARTER/NINE-MONTH PERIOD	4,284	12,799	(6,394)	8,395
	Attributable to:				
	Owners of the parent	4,705	13,009	(5,721)	9,853
	Non-controlling interests	(421)	(210)	(673)	(1,458)
		4,284	12,799	(6,394)	8,395

		Unaudited			
		Three months ended September 2022		Nine months ended September 2022	
		Three- month Period HK cent	HK cents	Nine- month Period HK cent	HK cents
Notes					
EARNINGS/(LOSS) PER SHARE FOR EARNINGS/(LOSS) ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE PARENT:					
Basic earnings/(loss) per Share	2	<u>0.76</u>	<u>2.11</u>	<u>(0.93)</u>	<u>1.60</u>
Diluted earnings per Share	2	<u>Not applicable</u>	<u>2.09</u>	<u>Not applicable</u>	<u>1.59</u>
Dividends	3	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE CONDENSED CONSOLIDATED INCOME STATEMENT

1 Income tax (expense)/credit

Income tax expense was recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

2 Loss per Share attributable to ordinary equity holders of the parent

The calculation of the basic loss per Share amounts was based on the loss for the Nine-month Period attributable to ordinary equity holders of the parent, and the weighted average number of Shares of 616,115,000 (nine months ended 30th June 2022: 616,115,000) in issue during the Nine-month Period.

The calculation of the diluted earnings per Share amounts for the nine months ended 30th September 2022 was based on the profit 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 nine months ended 30th September 2022, as used in the basic earnings 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)/earnings per Share were based on:

	Nine-month Period HK\$'000	Nine months ended 30th September 2022 HK\$'000
(Loss)/profit		
(Loss)/profit attributable to ordinary equity holders of the parent, used in the basic (loss)/earnings per Share calculation:	<u>(5,721)</u>	<u>9,853</u>
	Number of Shares	
	Nine-month Period	Nine months ended 30th September 2022
Shares		
Weighted average number of Shares in issue during the Nine-month Period used in the basic (loss)/earnings per Share calculation (thousands)	616,115	616,115
Effect of dilution – weighted average number of Shares:		
Options to subscribe for Shares pursuant to the share option scheme approved at the annual general meeting on 22nd June 2012 and terminated on 17th June 2022 by the holders of the Shares (thousands)	<u>–</u>	<u>4,639</u>
	<u>616,115</u>	<u>620,754</u>

3 Dividends

The Directors do not recommend payment of interim dividend for the Nine-month Period (nine months ended 30th September 2022: nil).

4 Reserves

	Contributed surplus HK\$'000	Share-based payments HK\$'000	Capital redemption reserve HK\$'000	Fair value reserve of financial assets at fair value through other comprehensive income HK\$'000	Merger reserve HK\$'000	Statutory reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total other reserves 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	-	-	-	(10,009)	-	-	-	-	(10,009)
Exchanges differences related to foreign operations	-	-	-	-	-	-	(610)	-	(610)
Release to accumulated losses on disposal of a subsidiary	-	(197)	-	-	-	-	-	197	-
Dividend relating to 2021	(6,161)	-	-	-	-	-	-	-	(6,161)
Profit for the nine months ended 30th September 2022	-	-	-	-	-	-	-	9,853	9,853
As at 30th September 2022	91,515	7,085	702	(12,587)	35,549	49	4,386	(7,926)	118,773
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	-	-	-	(3,566)	-	-	-	-	(3,566)
Exchanges differences related to foreign operations	-	-	-	-	-	-	425	-	425
Reclassification to profit or loss – gross	-	-	-	5,848	-	-	-	-	5,848
Dividend relating to 2022	(6,161)	-	-	-	-	-	-	-	(6,161)
Loss for the Nine-month Period	-	-	-	-	-	-	-	(5,721)	(5,721)
As at 30th September 2023	85,354	7,085	702	27,708	35,549	49	4,759	(18,040)	143,166

BUSINESS REVIEW

Business in Macao, Hong Kong and Mainland China

Macao, Hong Kong and Mainland China remain the three core operating markets of the Group. With different market sectors facing different challenges, the Group secured HK\$343,900,000 of work orders during the Nine-month Period, representing a drop of approximately 25% over the same comparable period of 2022.

Macao, in particular the gaming sector, continues to rally on the momentum of the strong and solid return of mass markets. Accumulated gross revenue from games of fortune reported by DICJ for the Nine-month Period reached HK\$125,009,000,000, which represented approximately 58% of pre-pandemic level in 2019. With different gaming operators gradually resuming their capital expenditure programmes and riding on new business opportunities in the area of surveillance brought from the introduction of new guidelines by DICJ, the Group successfully capitalised on these opportunities and secured HK\$121,800,000 worth of contracts for the Nine-month Period from different gaming operators as compared to only HK\$37,400,000 worth of contracts secured for the same corresponding period of 2022. Works included upgrade of existing surveillance systems, install new surveillance systems and replacement of different IT solutions.

With the gaming sector exhibiting strong business momentum, the Government of Macao plays down its role as a vital stimulus to the local economy and continues to gear its focus on programmes in public housing, healthcare, environmental protection and the sporting sector. Despite so, the Government of Macao remains a core customer of the Group. Of the total contracts of HK\$103,400,000 secured during the Nine-month Period from non-gaming customers, over 74% were generated from the Government of Macao. New contracts awarded from the Government of Macao included works in the areas of networks infrastructure, servers and storage, firewall and maintenance services with customers being Health Bureau, Judiciary Police, Municipal Affairs Bureau, Identification Bureau, Labour Affairs Bureau, Marine and Water Bureau, Social Security Fund, Macao Customs Service, to name a few.

In Hong Kong, as the local economic growth continues to be shadowed by high interest environment and lack of strong growth drivers, the Hong Kong team received only HK\$37,300,000 worth of new contracts during the Nine-month Period, which represented a decline of approximately 40% as compared to the same corresponding period of 2022. Although the Hong Kong team managed to secure similar level of business from its core customer, which is a regional ICT solutions provider, for the expansion and partial replacement of its data network infrastructure in Mainland China, weakness is experienced with SD-WAN business and, in particular, managed service business carried out by Meta-V Tech Services Limited (incorporated in Hong Kong with limited liability and an indirect subsidiary of the Company) due to increasing competition from other managed service providers and long selling cycle of managed services.

With the outlook of Mainland China remains challenging due to a slower than expected economic growth, foreign investment, exports and currency in the post-pandemic era, both SD-WAN business and data networks infrastructure business of the Group continue to be adversely affected. For SD-WAN business, as compared to an order book of HK\$50,400,000 of contracts secured during the first nine months of 2022, the Mainland China team ended the Nine-month Period with an order book of just HK\$33,300,000 of contracts, or a drop of approximately 34%. For data networks infrastructure business, the two largest customers of the Group, one being a leading provider of Internet value-added services and the other being a leading Internet technology company that operates creative content platforms, continue to cautiously monitor the geopolitical challenges and adjust their investments in construction of new, or expansion of, existing data centres, in particular in overseas markets. As a result, the Mainland China team brought in only HK\$48,000,000 of new contracts for the Nine-month Period as compared to HK\$156,200,000 for the same comparable period of 2022.

Other Investments

Tidestone Group – Subsequent to a slow start with only HK\$2,200,000 worth of contracts secured during the initial six months of 2023, during the Three-month Period, Tidestone Group signed HK\$7,700,000 worth of contracts from different telecommunications service providers in the province of Jiangxi and Hebei and in the municipality of Shanghai. Works involved the application of the network management system of Tidestone Group for network traffic monitoring, alarm processing and dynamic environmental monitoring at sub-systems of the telecommunications service providers.

TTSA – For ten consecutive quarters, TTSA reports positive results. During the Three-month Period, TTSA generated revenue of HK\$46,874,000, representing a minor drop of approximately 2% as compared to the same corresponding period of 2022. Due to capital investment previously made in mobile infrastructure and high interest environment, thus resulting in higher depreciation and interest expenses, earnings before interest, tax, depreciation and amortisation for the Three-month Period dropped to HK\$12,554,000, or a 22.9% decline as compared to the same corresponding period of 2022. Net profit also experienced a corresponding drop of 53.4% from last year to HK\$2,114,000 for the Three-month Period.

Subsequent to the news on 3rd May 2023 where the Government of Timor-Leste entered into a conditional sale and purchase with Oi for the purchase of 57.06% of Oi in TTSA for cash payment of HK\$42,627,000 and assumption of over HK\$122,789,000 worth of debts, as at the date of this report, there is no further update. The Group will continue to keep close watch of any latest developments.

As at 30th September 2023, the fair value of the investment in TTSA in the books of the Group remains at HK\$37,477,000, which represented 9.58% of the total assets of the Group.

Financial Review

Despite addition of only HK\$343,900,000 to the order book during the Nine-month Period, attributable to a strong order book brought forward from 2022, which included over HK\$70,000,000 of backlogs of switches and high-end routers 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 reported revenue of HK\$114,134,000 for the Three-month Period, bringing total revenue for the Nine-month Period to reach HK\$332,442,000, or an increase of 14.70% over the same comparable period of 2022. While gross profit margin for the Three-month Period maintained at around 24%, gross profit margin for the Nine-month Period remained slightly below 20% due to increasing market competition. With competition experienced across all business sectors and all operating markets, it is expected to continue to put pressure on the gross profit margin of the Group.

Despite furlough leave continued to be extended to Directors and selected senior management during the Three-month Period, selling, marketing and administrative expenses for the Nine-month Period reported an increase of 8.79% to reach HK\$72,183,000. Factors that explained the increase included exchange loss from the depreciation of Renminbi, the lawful currency of Mainland China, increase in travelling and entertainment expenses as employees actively resumed both local and overseas travelling to visit customers, attend events and conferences hosted by different vendors, increase in marketing expenses from sponsoring different events to introduce and demonstrate new products and solutions, higher staff costs as the Group lifted up freeze hiring and began to fill up different positions vacated during the pandemic and the impairment of bonds issued by Kaisa Group Holdings Ltd., a company incorporated in the Cayman Islands with limited liability and whose ordinary shares of HK\$0.1 each are listed on the Main Board (valued HK\$1,566,000).

As a result of higher selling, marketing and administrative expenses, the Group reported net profit of HK\$4,284,000 for the Three-month Period, with net loss of the Group for the Nine-month Period narrowed to HK\$6,394,000.

The Group continued to enjoy a healthy capital structure with no external borrowing. Total equity stood at HK\$198,449,000 as at 30th September 2023 with total net cash balances and yield-enhanced financial instruments of HK\$105,182,000, or 26.88% of total assets. To provide sufficient working capital, the Board does 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 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	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
Fung Kee Yue Roger	Personal (Note 4)	210,000	0.09

Notes:

- 1 As at 30th September 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 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 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 30th September 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 30th September 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 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
“DICJ”	Direcção de Inspeção e Coordenação de Jogos (Gaming Inspection and Coordination Bureau) of the Government of Macao

“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)
“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 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
“Nine-month Period”	nine months ended 30th September 2023
“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
“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 30th September 2023
“Tidestone Group”	Capital Instant Limited, incorporated in BVI with limited liability and an indirectly owned 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, 10th November 2023

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

* *for identification purpose only*