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VODATEL NETWORKS HOLDINGS LIMITED

愛達利網絡控股有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 8033

BUSINESS AND FINANCIAL HIGHLIGHTS FOR THE THREE-MONTH PERIOD AND NINE-MONTH PERIOD

- Due to a stronger third quarter in 2018, the Group reported revenue of HK\$108,050,000 and HK\$287,562,000 for the Three-Month Period and Nine-Month Period, representing a growth of 4.58% and 13.83% respectively
- As a result of the mix of sales comprising a relatively higher percentage of the lower-margin hardware sales, the Group reported net loss of HK\$2,800,000 for the Three-Month Period, whereas attributable to two consecutive stronger quarters in 2018 as compared to 2017, net loss for the Nine-Month Period narrowed from HK\$13,105,000 to HK\$7,987,000
- Although “Vodatel” brand of companies in Macao, Hong Kong and Mainland China were only able to add approximately HK\$57,000,000 to its order book during the Three-Month Period, new orders in the areas of DWDM infrastructure and SD-WAN infrastructure were recorded
- MDL continued to secure over HK\$30,000,000 worth of contracts during the Three-Month Period, however, narrowing margins in different contracts has been observed mainly due to increasing competition from other local system integrators as a result of absence of ample business opportunities in the gaming sector
- TTSA remained positive over the partial recovery of the outstanding receivables that the Government of Timor-Leste owes to TTSA
- Total net cash balances and yield-enhanced financial instruments as at 30th September 2018 totalled HK\$136,919,000 or approximately 43.16% of total assets
- The Directors do not recommend payment of an 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:

		Unaudited			
		Three months ended		Nine months ended	
		30th September 2017		30th September 2017	
Notes	Three-Month Period HK\$'000	30th September 2017 HK\$'000	Nine-Month Period HK\$'000	30th September 2017 HK\$'000	
Revenue	108,050	103,316	287,562	252,620	
Cost of sales of goods	(69,656)	(67,591)	(177,347)	(161,329)	
Cost of providing services	(18,288)	(13,682)	(45,904)	(34,572)	
Gross profit	20,106	22,043	64,311	56,719	
Selling, marketing costs and administrative expenses	(23,614)	(24,319)	(74,868)	(72,093)	
Other gains	63	298	851	714	
Operating loss	(3,445)	(1,978)	(9,706)	(14,660)	
Finance income	687	421	1,892	1,552	
Finance costs	(42)	(1)	(67)	(1)	
Finance income - net	645	420	1,825	1,551	
Share of profit of an associate	—	4	—	4	
Loss before income tax	(2,800)	(1,554)	(7,881)	(13,105)	
Income tax expense	—	—	(106)	—	1
Loss for the period	(2,800)	(1,554)	(7,987)	(13,105)	
Loss is attributable to:					
Owners of the Company	(2,418)	(1,678)	(6,940)	(12,213)	
Non-controlling interests	(382)	124	(1,047)	(892)	
	(2,800)	(1,554)	(7,987)	(13,105)	
Loss per Share for loss attributable to the ordinary equity holders of the Company (expressed in HK cents per Share)					
Basic and diluted loss per Share	2	(0.39)	(0.27)	(1.13)	(1.99)
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 2017: 16.5% for all assessable profits). 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 2017 HK\$'000
Loss attributable to ordinary equity holders of the Company used in calculating basic loss per Share	(6,940)	(12,213)

(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)	614,435	614,385
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(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 anti-dilutive for the Nine-Month Period. These Options could potentially dilute basic loss per Share in the future.

3 Dividends

The Directors do not recommend payment of an interim dividend for the Nine-Month Period (nine months ended 30th September 2017: nil).

4 Reserves

	Contributed surplus HK\$'000	Share-based payments HK\$'000	Capital redemption reserve HK\$'000	2017: Available- for-sale investments / 2018: Fair value through other comprehensive income reserve 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 2017	97,676	7,442	702	12,170	35,549	49	2,913	156,501	21,042
Revaluation loss	—	—	—	(37)	—	—	—	(37)	—
Currency translation differences	—	—	—	—	—	—	(46)	(46)	—
Dividend relating to 2016	—	—	—	—	—	—	—	—	(6,144)
Loss for the nine months ended 30th September 2017	—	—	—	—	—	—	—	—	(12,213)
As at 30th September 2017	<u>97,676</u>	<u>7,442</u>	<u>702</u>	<u>12,133</u>	<u>35,549</u>	<u>49</u>	<u>2,867</u>	<u>156,418</u>	<u>2,685</u>
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-Month Period	—	—	—	—	—	—	—	—	(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>

BUSINESS REVIEW

Business in Macao, Hong Kong and Mainland China

In Macao, with gaming remains as a core economic pillar, business generated from different gaming operators continues to be one of the main revenue drivers of the Group. As per the official statistics from the Government of Macao, total gross revenue generated from different gaming activities for the Nine-Month Period reached HK\$217,529,000,000. Although total gross revenue represented a year-on-year growth of 15.86%, it trailed behind the year-on-year growth of 18.86% for the initial six months of 2018. While the gaming sector continued to show visible signs of growth potential, given the recent global trade tensions, currency volatility and stock market fluctuations, the Group has witnessed cautions over the near term capital expenditures momentum and spending pattern among its customers, in particular gaming operators and telecommunications service providers.

Due to market uncertainties and limited number of gaming operators still constructing new and mega-sized gaming infrastructure, during the Three-Month Period, the Group witnessed a visibly slowdown in securing new contracts in Macao, Hong Kong and Mainland China. In addition, two other observations were noted, including tougher price negotiations and decline in the higher-margin service contracts (involving installation and system support services) awarded, as customers, especially gaming operators, rearranged their internal human resources to perform such services. Nevertheless, “Vodatel” brand of companies in Macao, Hong Kong and Mainland China were able to add approximately HK\$57,000,000 to its order book during the Three-Month Period, though feel short the total value of contracts of HK\$85,000,000 and HK\$91,000,000 registered for first quarter and second quarter of 2018 respectively. The contracts secured during the Three-Month Period included a handful of work orders from different gaming operators to support their customarily upgrades and renovations of their gaming floors, and expansion works to the data centres of Internet value-added services providers in Mainland China, different telecommunications service providers in Hong Kong and Mainland China and data centre providers in Mainland China. Worth noting was new orders in the areas of DWDM infrastructure and SD-WAN infrastructure which VHL commenced carrying and promotion during the third quarter of 2017. During the Three-Month Period, VHL secured over HK\$2,500,000 worth of contract from a regional telecommunications service provider in Mainland China to deploy DWDM infrastructure and secured multiple contracts, worth HK\$4,000,000, from a leading provider of content delivery services in the Asia Pacific Region to deploy SD-WAN infrastructure.

During the Three-Month Period, MDL continued to secure over HK\$30,000,000 worth of contracts in the areas of servers, storage, networks, customised software and maintenance support services from public utilities, banks, hotel and gaming operators, hospitals, educational institutions and different departments under the Government of Macao, such as Civic and Municipal Affairs Bureau, Public Security Police Force, Identification Bureau, Marine and Water Bureau, to name a few. Although momentum of securing new orders have remained strong throughout 2018, narrowing margins in different contracts has been observed mainly due to increasing competition from other local system integrations as a result of absence of ample business opportunities in the gaming sector. The Group will remain watchful if further pricing pressure is noted.

In Mainland China, operating performance of TSTSH and TSTJX remained less than impressive with over HK\$2,400,000 of loss of the Group attributable to TSTSH and TSTJX. To ensure the sustainability and the longer term prospects of the “Tidestone” group of companies, more effort of the Group will be put into improving their business performance.

Other Investments

TTSA TTSA continued to deliver a rather mixed operating performance. During the Three-Month Period, although TTSA reported another quarter drop in its revenue to HK\$48,895,000 or a 4.04% drop from the second quarter of 2018, its earnings before interest, tax, depreciation and amortisation improved marginally by 0.54% to reach HK\$19,436,000 and with net loss narrowed to HK\$17,081,000.

During the Three-Month Period, there is no major 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. Nevertheless, with the political unrest in Timor-Leste settled subsequent to the formation of a majority Government during the new parliamentary election in May 2018, TTSA remained positive over the partial recovery of the outstanding receivables of approximately HK\$70,449,000 that the Government of Timor-Leste owes to TTSA. Going forward, the Group will continue to monitor the status of TTSA.

FINANCIAL REVIEW

Despite a stronger Three-Month Period as compared to the preceding quarter of 2017 with revenue for the Three-Month Period registering a growth of 4.58% to reach HK\$108,050,000, due to the mix of sales comprising a relatively higher percentage of the lower-margin hardware sales, gross profit margin of the Group reported a drop from 21.34% to 18.61%. With gross profit of HK\$20,106,000 generated for the Three-Month Period and selling, marketing costs and administrative expenses at similar level as the preceding third quarter of 2017, the Group reported net loss of HK\$2,800,000.

As for the Nine-Month Period, with two consecutive stronger quarters as compared to 2017, the Group recorded total revenue of HK\$287,562,000, representing an increase of 13.83% as compared to the first nine months of 2017. With gross profit margin levelled at approximately 22%, gross profit of HK\$64,311,000 was reported. Selling, marketing costs and administrative expenses for the Nine-Month Period increased by HK\$2,775,000 due primarily to higher import duties and transportation costs paid by the Group as various contracts required delivery of equipment to different countries in the Asia Pacific Region. With a stronger Nine-Month Period, net loss narrowed from HK\$13,105,000 of the corresponding nine months of 2017 to HK\$7,987,000.

The Group continued to enjoy a healthy capital structure with minimum leverage on external borrowing. Level of inventories remained at low level at HK\$18,649,000 as at 30th September 2018, while level of trade receivables and level of trade and bills payable stood at HK\$106,492,000 and HK\$37,348,000 respectively. Total net cash balances and yield-enhanced financial instruments increased to approximately HK\$136,919,000 as at 30th September 2018, or approximately 43.16% 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 EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30th September 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	Approximate %
			(in respect of Options held)	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 30th September 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 30th September 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	Approximate % of the issued share capital of the Company	
		Number of Shares held	
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:

- 1 As at 30th September 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.
- 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 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 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
“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
“DWDM”	dense wavelength division multiplexing

“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”	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
“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
“Nine-Month Period”	nine months ended 30th September 2018
“OHHL”	Ocean Hope Holdings Limited, a company incorporated in BVI with limited liability
“Option”	an option to subscribe for Shares pursuant to the Scheme
“PRC”	The People’s Republic of China
“Scheme”	the share option scheme approved by the holders of the Shares at an 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

“SD-WAN”	software-defined networking in a wide area network
“Three-Month Period”	three months ended 30th September 2018
“Timor-Leste”	The Democratic Republic of Timor-Leste
“TSTJX”	泰思通軟件（江西）有限公司, incorporated in PRC with limited liability and an indirect subsidiary the Company
“TSTSH”	泰思通軟件（上海）有限公司, incorporated in PRC with limited liability and an indirect subsidiary the Company
“TTSA”	Timor Telecom, S.A., a company incorporated in 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
Monica Maria Nunes
Deputy Chairman

Macao, 12th November 2018

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

This announcement, 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 announcement 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.

* for identification purpose only