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 YEAR

- Registered revenue of HK$272,374,000 for the Year, representing a decrease of 5.92% over the preceding year

- Improved gross profit margin, stronger dividend income, higher finance income and better operating results at Vodacabo lifted the net profit of the Group to HK$29,747,000, or an increase of 17.15% over the preceding year

- Net profit for the Year and revaluation of the carrying value of the Group in TTSA pushed up the equity base to HK$298,415,000 as at 31st December 2012

- Continued to operate under a "Multiple Branding" philosophy, with "Vodatel", "Mega Datatech" and "Tidestone" each positioned to achieve differentiation yet complementary in product and service offerings

- Operating performance of the segment of CNMS turned around to generate profit before income tax of HK$5,219,000

- Government of Timor-Leste early terminated the exclusive concession contract of TTSA to provide exclusively telecommunications services in Timor-Leste in March 2012 and issued two new licences

- TTSA reported record high revenue of HK$578,604,000 but witnessed a drop in net profit to HK$168,193,000

- The Directors recommend payment of a final dividend of HK$0.01 per Share and a special dividend of HK$0.01 per Share for the Year

RESULTS

The Board is pleased to present the audited consolidated results of the Group for the Year as follows:

Consolidated Income Statement

	Note	Year ended 31st December 2012 HK$'000	2011 HK$'000
Revenue	2	**272,374**	289,506
Cost of sales	4	**(199,161)**	(216,617)
Gross profit		**73,213**	72,889
Selling and marketing costs	4	**(6,439)**	(6,472)
Administrative expenses	4	**(76,386)**	(74,410)
Other income	5	**33,618**	31,037
Operating profit		**24,006**	23,044
Finance income		**4,263**	1,691
Finance costs		**(7)**	—
Finance income — net	6	**4,256**	1,691
Share of profit of associates		**3,095**	1,522
Profit before income tax		**31,357**	26,257
Income tax expense	7	**(1,610)**	(864)
Profit for the Year		**29,747**	25,393
Profit/(loss) attributable to:			
Owners of the Company		**29,274**	26,685
Non-controlling interests		**473**	(1,292)
		29,747	25,393
Earnings per Share attributable to owners of the Company during the Year (expressed in HK cents per Share)			
Basic and diluted earnings per Share	8	**4.77**	4.35
Dividends (expressed in HK$'000)	9	**15,345**	3,069

Consolidated Balance Sheet

	Note	As at 31st December 2012 HK$'000	2011 HK$'000
Assets			
Non-current assets			
Property, plant and equipment		**1,705**	1,297
Investments in associates		**3,600**	2,131
Available-for-sale financial assets		**151,429**	69,914
		156,734	73,342
Current assets			
Inventories		**8,606**	13,074
Trade receivables	10	**129,054**	104,368
Other receivables, deposits and prepayments		**23,365**	18,144
Available-for-sale financial assets		**19,681**	—
Pledged bank deposits		**615**	610
Cash and cash equivalents		**78,328**	98,752
		259,649	234,948
Liabilities			
Current liabilities			
Trade and bills payables	11	**58,524**	49,658
Other payables and accruals		**53,508**	45,549
Current income tax liabilities		**5,936**	4,938
		117,968	100,145
Net current assets		**141,681**	134,803
Total assets less current liabilities		**298,415**	208,145

	Note	As at 31st December 2012 HK$'000	2011 HK$'000
Financed by:			
Equity			
Equity attributable to owners of the Company			
Shares		**61,382**	61,382
Other reserves	12	**231,993**	165,334
Retained earnings/(accumulated losses)	12		
— Proposed final dividend		**6,138**	3,069
— Proposed special dividend		**6,138**	—
— Others		**(8,751)**	(22,680)
		296,900	207,105
Non-controlling interests		**1,515**	1,040
Total equity		**298,415**	208,145

The audited consolidated results of the Group for the Year were reviewed by the Audit Committee.

Notes:

1 **Basis of preparation**

The consolidated financial statements of the Company were prepared in accordance with HKFRS. The consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with HKFRS required the use of certain critical accounting estimates. It also required management to exercise its judgement in the process of applying the accounting policies of the Group.

(a) *Changes in accounting policy and disclosures - Amended standards not adopted by the Group*

The following revised amendments to standards are mandatory for the first time for the financial year beginning 1st January 2012.

- Amendment to HKFRS 7, 'Financial instruments: Disclosures' on transfer of financial assets was effective for annual periods beginning on or after 1st July 2011. This is not currently applicable to the Group, as it has no transfer of financial assets.

- Amendment to HKFRS 1, 'First time adoption', on hyperinflation and fixed dates was effective for annual periods beginning on or after 1st July 2011. This is not relevant to the Group as the Group is not first-time adopter of financial statements.

- Amendment to HKAS 12, 'Income taxes″, on deferred tax is effective for annual periods beginning on or after 1st January 2012. This is not currently applicable to the Group, as it has no investment properties.

(b) *Changes in accounting policy and disclosures - New standards and interpretation not yet adopted*

The following new or revised standards, amendments and interpretation to standards were issued but are not effective for the financial year beginning 1st January 2012 and have not been early adopted:

HKAS 1 (Amendment)	Presentation of Items of OCI (effective for periods beginning on or after 1st July 2012)
HKAS 19 (Revised 2011)	Employee Benefits (effective for periods beginning on or after 1st January 2013)
HKAS 27 (Revised 2011)	Separate Financial Statements (effective for periods beginning on or after 1st January 2013)
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures (effective for periods beginning on or after 1st January 2013)
HKFRS 1 (Amendment)	Government Loans (effective for periods beginning on or after 1st January 2014)
HKFRS 7 (Amendment)	Disclosures - Offsetting Financial Assets and Financial Liabilities (effective for periods beginning on or after 1st January 2013)
HKFRS 9	Financial Instruments (effective for periods beginning on or after 1st January 2015)

HKFRS 10	Consolidated Financial Statements (effective for periods beginning on or after 1st January 2013)
HKFRS 11	Joint Arrangements (effective for periods beginning on or after 1st January 2013)
HKFRS 12	Disclosures of Interests in Other Entities (effective for periods beginning on or after 1st January 2013)
HKFRS 13	Fair Value Measurement (effective for periods beginning on or after 1st January 2013)
Hong Kong (IFRIC) Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine (effective for periods beginning on or after 1st January 2013)
Amendment to HKFRS 1	First time adoption on government loans (effective for periods beginning on or after 1st January 2013)
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures (effective for periods beginning on or after 1st January 2015)
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (effective for periods beginning on or after 1st January 2013)
Amendment to HKAS 32	Financial instruments: Presentation on asset and liability offsetting (effective for periods beginning on or after 1st January 2014)
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities (effective for periods beginning on or after 1st January 2014)
HKFRS (Amendment)	Annual improvements 2009-2011 Cycle (effective for periods beginning on or after 1st January 2013)

The Group will adopt the above new or revised standards, amendments and interpretation to existing standards as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

2 Revenue

Revenue was measured at the fair value of the consideration received or receivable, and represented amounts receivable for goods and services supplied, stated net of discounts, returns and value-added tax. The Group recognised revenue when the amount of revenue could be reliably measured; when it was probable that future economic benefits would flow to the entity; and when specific criteria were met for each of the activities of the Group, as described below. The Group based its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services was recognised upon the satisfactory completion of installation, which generally coincided with the time when the systems were delivered to customer.

The Group sold maintenance services to the end users. These services were provided as a fixed-price contract, with contract terms generally ranging from less than one year to three years. Revenue from fixed-price contracts for delivering maintenance services was generally recognised in the period the services were provided, using a straight-line basis over the term of the contract.

Revenue from software implementation was recognised when such implementation was accepted by the customer.

3 **Segment information**

The executive Directors were the chief operating decision-makers of the Group. Management determined the operating segments based on the information reviewed by the executive Directors for the purpose of allocating resources and assessing performance.

The executive Directors considered the business from both a geographic and product perspective. From a product perspective, management assessed the performance of the segment of design, sale and implementation of network and systems infrastructure; customer data automation, customisation and intergration; and provision of technical support services and the segment of CNMS. The first segment was further evaluated on a geographic basis (Mainland China, and Hong Kong and Macao).

The executive Directors assessed the performance of the operating segments based on a measure of adjusted EBITDA. This measurement basis excluded the effects of non-recurring income and expenditure from the operating segments such as profit on disposal of available-for-sale financial assets. Interest income and expenditures were not allocated to segments, as this type of activity was managed by the executive Directors, who managed the cash position of the Group.

Revenue

The revenue from external parties reported to the executive Directors was measured in a manner consistent with that in the income statement.

	Revenue form external customers	
	2012	2011
	HK$'000	HK$'000
Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services:		
- Mainland China	**52,058**	37,825
- Hong Kong and Macao	**195,063**	241,344
CNMS	**25,253**	10,337
Total	**272,374**	289,506

EBITDA

	Adjusted EBITDA	
	2012	2011
	HK$'000	HK$'000
Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services:		
- Mainland China	**4,381**	685
- Hong Kong and Macao	**17,327**	30,368
CNMS	**5,530**	(5,931)
Total	**27,238**	25,122
Depreciation	**(685)**	(556)
Finance income - net	**4,256**	1,691
Profit on disposal of available-for-sale financial assets	**187**	—
Profit on disposal of subsidiaries	**361**	—
Profit before income tax	**31,357**	26,257

Other profit and loss disclosures

	2012			2011		
	Depreciation	**Finance income - net**	**Share of profit of associates**	Depreciation	Finance income	Share of profit of associates
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services:						
- Mainland China	**(44)**	**97**	**—**	(86)	131	—
- Hong Kong and Macao	**(317)**	**4,146**	**3,095**	(292)	1,542	1,522
CNMS	**(324)**	**13**	**—**	(178)	18	—
Total	**(685)**	**4,256**	**3,095**	(556)	1,691	1,522

Assets

	2012			2011		
	Total assets HK$'000	**Investments in associates HK$'000**	**Additions to non-current assets HK$'000**	Total assets HK$'000	Investments in associates HK$'000	Additions to non-current assets HK$'000
Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services:						
- Mainland China	**41,186**	**—**	**346**	37,025	—	53
- Hong Kong and Macao	**187,301**	**3,600**	**349**	190,051	2,131	272
CNMS	**16,786**	**—**	**450**	11,300	—	450
Total	**245,273**	**3,600**	**1,145**	238,376	2,131	775
Unallocated						
Available-for-sale financial assets	**171,110**			69,914		
Total assets per the balance sheet	**416,383**			308,290		

The amounts provided to the executive Directors with respect to total assets were measured in a manner consistent with that of the consolidated financial statements. These assets were allocated based on the operations of the segment and the physical location of the asset.

Investments in equity and debt instruments (classified as available-for-sale financial assets) held by the Group were not considered to be segment assets but rather were managed centrally.

Entity-wide information

Breakdown of revenue from all services is as follows:

Analysis of revenue by category

	2012 HK$'000	2011 HK$'000
Revenue from design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services	**247,121**	279,169
Revenue from CNMS	**25,253**	10,337
	272,374	289,506

The entity is domiciled in Bermuda. There was no revenue from external customers in Bermuda for the Year and the year ended 31st December 2011, and the total of revenue from external customers from other regions was HK$272,374,000 (2011: HK$289,506,000). The breakdown of the total of revenue from external customers from other regions is disclosed as above.

As at 31st December 2012 and 2011, there was no non-current assets located in Bermuda, and the total of non-current assets other than financial instruments located in other regions was HK$5,305,000 (2011: HK$3,428,000).

Revenue of approximately HK$71,085,000 (2011: HK$70,250,000) was derived from a single external customer. The revenue was attributable to the segment of design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services in Hong Kong and Macao.

4 Expenses by nature

	2012	2011
	HK$'000	HK$'000
Changes in inventories	**172,612**	186,705
Depreciation	**685**	556
(Reversal of impairment)/impairment of inventories	**(3,166)**	15
Reversal of impairment of trade receivables	**(1,188)**	(748)
Employee benefit expense and independent non-executive Directors' emoluments	**54,375**	52,272

5 Other income

Other income included dividend income on an available-for-sale financial asset, unlisted of HK$32,407,000 (2011: HK$30,670,000) and listed of HK$168,000 (2011: Nil). It also included profit on disposal of available-for-sale financial assets, unlisted of HK$187,000 (2011: Nil) and profit on disposal of subsidiaries of HK$361,000 (2011: Nil).

6 Finance income and costs

	2012	2011
	HK$'000	HK$'000
Interest expense:		
— Bank borrowings wholly repayable within five years	**(7)**	—
Total finance cost	**(7)**	—
Finance income:		
— Interest income on short-term bank deposits	**752**	621
— Interest income on available-for-sale financial assets	**2,430**	934
— Others	**1,081**	136
Finance income	**4,263**	1,691
Net finance income	**4,256**	1,691

7 Income tax expense

Hong Kong profits tax was provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the Year. Taxation on overseas profits was calculated on the estimated assessable profit for the Year at the rates of taxation prevailing in the regions in which the Group operated.

	2012	2011
	HK$'000	HK$'000
Current tax:		
Current tax on profits for the Year		
- Macao complementary profits tax	**109**	505
- Mainland China corporate income tax	**1,670**	19
Adjustments in respect of prior years	**(169)**	340
Income tax expense	**1,610**	864

The tax on the profit before income tax of the Group differed from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2012	2011
	HK$'000	HK$'000
Profit before income tax	**31,357**	26,257
Tax calculated at the domestic tax rates applicable to profits in the respective regions	**2,946**	(1,161)
Tax effects of:		
- Income not subject to tax	**(3,286)**	(1,247)
- Expenses not deductible for tax purposes	**1,257**	436
- Utilisation of previously unrecognised tax losses	**(662)**	(14)
- Tax losses for which no deferred income tax asset was recognised	**1,524**	2,510
Adjustments in respect of prior years	**(169)**	340
Tax charge	**1,610**	864

The weighted average applicable tax rate was 7.72% (2011: 4.74%). The change was caused by a change in the profitability of the subsidiaries of the Company in the respective regions.

There was no taxation impact relating to components of OCI during the Year (2011: Nil).

8 **Earnings per Share**

(a) ***Basic***

Basic earnings per Share was calculated by dividing the profit attributable to owners of the Company by the weighted average number of Shares in issue during the Year.

	2012	2011
	HK$'000	HK$'000
Profit attributable to owners of the Company	**29,274**	26,685
Weighted average number of Shares in issue (thousands)	**613,819**	613,819

(b) ***Diluted***

Diluted earnings per Share was calculated by adjusting the weighted average number of Shares outstanding to assume conversion of all dilutive potential Shares. The Company has Options as dilutive potential Shares. A calculation was done to determine the number of Shares that could have been acquired at fair value (determined as the average annual market Share price of the Shares) based on the monetary value of the subscription rights attached to the outstanding Options. The number of Shares calculated as above was compared with the number of Shares that would have been issued assuming the exercise of the Options. The conversion of all potential Shares arising from the Options would have an anti-dilutive effect on the earnings per Share for the Year and the year ended 31st December 2011. Accordingly, diluted earnings per Share was identical to basic earnings per Share for the Year and the year ended 31st December 2011.

9 **Dividends**

The dividends paid in the Year and the year ended 31st December 2011 were HK$6,138,000 (HK$0.01 per Share) and HK$3,069,000 (HK$0.005 per Share) respectively. A final dividend in respect of the Year of HK$0.01 per Share and a special dividend of HK$0.01 per Share, amounting to a total dividend of HK$12,276,000 are to be proposed at the coming AGM. The Company will give notice of the closure of its register of Members once the date of the AGM is determined. Such notice will be given at least ten days (excluding Saturday and Sunday) on which banks in Hong Kong are generally open for business, before such closure, pursuant to Rule 17.78 of the GEM Listing Rules. These financial statements do not reflect these dividends payable.

	2012	2011
	HK$'000	HK$'000
Interim dividend paid of HK$0.005 (2011: Nil) per Share	**3,069**	—
Proposed final dividend of HK$0.01 (2011: HK$0.005) per Share	**6,138**	3,069
Proposed special dividend of HK$0.01 (2011: Nil) per Share	**6,138**	—
	15,345	3,069

10 **Trade receivables**

Sales of the Group were on receipts in advance, letter of credit documents against payment and open terms credit. The credit terms granted to customers varied and were generally the result of negotiations between individual customers and the Group. As at 31st December 2012 and 2011, the ageing analysis of the trade receivables based on invoice date was as follows:

	2012	2011
	HK$'000	HK$'000
Within three months	**83,948**	95,648
> Three months but ≤ six months	**14,998**	4,671
> Six months but ≤ twelve months	**4,247**	1,686
Over twelve months	**93,921**	71,619
Gross trade receivables	**197,114**	173,624

11 **Trade and bills payables**

As at 31st December 2012, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) based on invoice date was as follows:

	2012	2011
	HK$'000	HK$'000
Within three months	**50,513**	38,829
> Three months but ≤ six months	**1,038**	688
> Six months but ≤ twelve months	**138**	182
Over twelve months	**6,835**	9,959
	58,524	49,658

12 **Other reserves and (accumulated losses)/retained earnings**

	Contributed surplus HK$'000	Other reserve HK$'000	Capital redemption reserve HK$'000	Available-for-sale investments HK$'000	Merger reserve HK$'000	Statutory reserve HK$'000	Translation HK$'000	Total HK$'000	(Accumulated losses)/ retained earnings HK$'000
As at 1st January 2011	97,676	4,178	702	11,768	35,549	49	3,408	153,330	(43,227)
Revaluation - gross	—	—	—	11,962	—	—	—	11,962	—
Currency translation differences	—	—	—	—	—	—	42	42	—
Profit for the year ended 31st December 2011	—	—	—	—	—	—	—	—	26,685
Dividends paid relating to 2010	—	—	—	—	—	—	—	—	(3,069)
As at 31st December 2011	97,676	4,178	702	23,730	35,549	49	3,450	165,334	(19,611)
Revaluation - gross	—	—	—	66,465	—	—	—	66,465	—
Revaluation transfer - gross	—	—	—	466	—	—	—	466	—
Released upon disposal of subsidiaries	—	—	—	—	—	—	(164)	(164)	—
Currency translation differences	—	—	—	—	—	—	(108)	(108)	—
Profit for the Year	—	—	—	—	—	—	—	—	29,274
Dividends paid relating to 2011	—	—	—	—	—	—	—	—	(3,069)
Dividends paid relating to 2012	—	—	—	—	—	—	—	—	(3,069)
As at 31st December 2012	97,676	4,178	702	90,661	35,549	49	3,178	231,993	3,525

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF BUSINESS ACTIVITIES

During the Year, the Group continued to focus its business in three principle markets, namely Macao/Hong Kong, Mainland China and Timor-Leste. Operating under the "Multiple Branding" philosophy, "Vodatel" focuses investment opportunities and on the provision of business and communications solutions in security and high-performance networking infrastructure in Macao, Hong Kong, Mainland China and Timor-Leste; "Mega Datatech" aims at the provision of enterprise information technology infrastructure, development of customised applications and maintenance support services in Macao; and "Tidestone" targets at the provision of self-developed CNMS in Hong Kong and Mainland China.

Business in Macao and Hong Kong

During the Year, VHL is again selected as one of the key service providers to the Government of Macao, the six gaming operators in Macao and through its subsidiary, a provider to regional-based telecommunications service providers in Hong Kong for the provision of solutions in the areas of networking infrastructure, surveillance and communications equipment and ancillary services. VHL is proud to secure from a gaming operator a contract to install communications equipment and provide ancillary services at its flagship gaming and entertainment hub in the Macao peninsula. This win is of significance as it is the first win of its kind by VHL in the gaming sector.

MDL continued to be positioned as a "One-Stop Shopper" and actively sourced products and solutions from different vendors that will fit the needs and requirements or further enhance the performance of the existing systems of its customers. MDL continued to be well-received by its customers, in particular the Government of Macao. Serving approximately twenty-five bureaus and offices, the Government of Macao represented over 60% of the total new orders secured during the Year for the provision of solutions and maintenance support services. The balance was awarded by different gaming and hotel operators, utilities and educational institutions, with a handful projects from the University of Macau to do cabling works and install server and storage systems, data and office networks, firewall and storage and backup systems at their new campus in Hengqin Island.

In 2011, MDL successfully added the Financial Services Bureau to its clientele list and during the Year, secured two landmark projects from the bureau, namely the e-Procurement application system and the central procurement application system. Other landmark projects won included the customer resources management system for Civic and Municipal Affairs Bureau, e-Office application system for Public Administration and Civil Service Bureau and the emergency support backup system for Public Security Forces Affairs Bureau. These wins, not only translated to revenue for the Group, they represented the higher-margin software development projects that MDL has been strategically positioned to focus on and the confidence of the Government of Macao in entrusting some of the more critical applications to be developed and delivered by MDL.

Business in Mainland China

In Mainland China, the main focus of the subsidiaries of VHL is to provide network maintenance support services to various telecommunications service providers, with a number of maintenance contracts secured from telecommunications service providers in the provinces of Liaoning and Hebei and in the municipality of Shanghai. Total maintenance contracts awarded exceeded HK$11,000,000 during the Year.

TSTSH continued to be positioned as one of the core research and development hubs within the Group, with in-house research and development teams in Shanghai, Nanchang, Chongqing and Guangzhou. During the Year, TSTSH remained focused on expanding the functionalities of its CNMS and on optimising the features of its existing modules, while realigning its marketing strategy to include both direct marketing and channel sales. Direct marketing is being deployed primarily with telecommunications service providers. Today, key market footholds of TSTSH include telecommunications service providers in the provinces of Guangdong, Jiangxi, Jiangsu and Shandong, municipalities of Chongqing and Shanghai and autonomous regions of Inner Mongolia and Xinjiang Uigur. For non-telecommunications clients, such as armed police force and manufacturers of dairy, additives, wines and staple food, and locations where TSTSH does not currently have strong presence, channel sales strategy is being deployed to sell the products and services to end-users on a nationwide basis.

Due to the maturity of its products, positive market responses and the adoption of different marketing strategies, TSTSH and its subsidiary secured over HK$28,000,000 worth of contracts during the Year, or a growth of over 40% over the preceding year. Moreover, with the completion and final acceptance of many projects that the segment of CNMS secured during previous years received, the segment of CNMS reported revenue of HK$25,253,000, or approximately 1.5 times over 2011. The segment of CNMS also made a turnaround and achieved profit before income tax of HK$5,219,000 as compared to loss before income tax of HK$6,091,000 in 2011.

Investments Holding Activities

TTSA

During the Year, TTSA continued to deliver strong results. Revenue hit record high of HK$578,604,000, representing a growth of 9.74% over the preceding year. However, the Government of Timor-Leste early terminated the exclusive concession contract to provide exclusively telecommunications services in Timor-Leste in March 2012 and issued two new licences to an Indonesian telecommunications operator and a Vietnamese telecommunications operator. Consequently, in anticipation of new competition, TTSA introduced some aggressive marketing campaigns during the Year to strengthen its foothold and penetration rate. While the number of mobile customers grew by a further 5% to approximately 632,000, net profit of TTSA reported a decrease, the first time since its incorporation, from HK$192,207,000 to HK$168,193,000, or a 12.49% drop.

With the liberalisation of the telecommunications market and new competition expected to commence during 2013, TTSA plans to initiate more prudent financial management, including partial repayment of its loans.

Despite the presence of two new competitors in the market, the Group is still confident about the prospect of TTSA and the telecommunications market in Timor-Leste. Consequently, in January 2013, the Group exercised its pre-emptive rights and increased its shareholding in TTSA by 0.96% at a consideration of HK$4,709,000. The shareholding of the Group in TTSA has now been increased from 16.90% to 17.86%. Completion of the transaction took place on 14th February 2013. The acquisition also resulted in the revaluation to the carrying value of the Group in TTSA from HK$5,785,000 to HK$83,217,000.

Vodacabo

When Vodacabo was first established in 2010, it engaged primarily on the construction of telecommunications towers and energy structures and the laying of optic fibre rings. Today, Vodacabo has expanded its product offerings to include also installation works of transmission networks, backbone networks, international link and landscape and concrete slabs and higher-margin consultancy services, such as network audits. Since its incorporation, Vodacabo generated total net profit of HK$11,871,000. Given the encouraging results and balancing the need of working capital, Vodacabo declared its first dividends, paying out an aggregate HK$1,550,000 of dividends to its shareholders against their operating performance for the Year. In January 2013, the Group received its pro-rata share of the dividend of HK$465,000.

Vodacabo started a strong year of 2013 with over HK$13,000,000 of secured contracts. Going forward, Vodacabo will capitalise its established position with TTSA to capture more business opportunities and will also take advantage of the liberalisation of the telecommunications market to promote its products and services offerings to the two new players.

MTNHL

Subsequent to the change of hands in 2011, MTNHL has now evolved to become a company that engaged in three principal activities, namely 1. development, provision and sale of mobile and Internet communication telecommunications and other related services; 2. trading of electronic parts and components in relation to display modules and touch panel modules, and provision of professional solution with engineering services; and 3. property development and investment properties. During the Year, MTNHL completed a very substantial acquisition with the acquisition of 75% of ETC. ETC is principally engaged in the trading of electronic parts and components in relation to display modules and touch panel modules and in the provision of professional solution with engineering services to meet the needs of individual customers including ZTE, Tian Ma, Lenovo, Huawei, Konka, LG and Haier, to name a few. For the nine-month period ended 31st December 2012, attributable to the acquisition, turnover of MTNHL surged to HK$282,051,000, or a whopping increase of twelve times over the same period of the preceding year.

REVIEW OF OPERATING RESULTS

Turnover and Profitability

The Government of Macao remained the largest customer of the Group. Although stronger revenue registered by TSTSH, in the absence of any large-scale infrastructure project in Macao, the Group reported revenue of HK$272,374,000 for the Year, or a drop of 5.92% as compared to 2011 of HK$289,506,000. Nevertheless, attributed to increasing number of software development projects at MDL and TSTSH and higher number of contracts to provide maintenance support services at VHL and MDL, both works carried higher margins, gross profit margin of the Group hiked up by 1.70% from 25.18% to 26.88%, Therefore, despite a decrease in revenue, gross profit for the Year reached HK$73,213,000, or a slight improvement over the preceding year of HK$72,889,000.

To alleviate inflationary pressures from human resources and rents, the Group realigned its human resources across different entities and continued to exercise tighter costs control. Although the Group was able to contain the increase of its selling and marketing costs and administrative expenses to HK$1,943,000, or an average 2.40% increase from HK$80,882,000 in 2011 to HK$82,825,000 during the Year, the Group has yet to reach a stable operating scale of self-sufficiency, in particular for its operations in Macao, which could be achieved through more aggressive organic growth.

TTSA continued to be the major contributor to the Group, bringing in dividend income of HK$32,407,000 during the Year. Improved gross profit margin, stronger dividend income, higher finance income generated from investments in yield-enhanced fixed income financial instruments and better operating results at Vodacabo, the Group reported profit before income tax of HK$31,357,000 for the Year. Net profit reached HK$29,747,000, or an increase of 17.15% over the preceding year.

Capital Structure and Financial Resources

Another year of profit and the revaluation of the carrying value of the Group in TTSA from HK$5,785,000 to HK$83,217,000 significantly drove up the equity base of the Group from HK$208,145,000 as at 31st December 2011 to HK$298,415,000 as at 31st December 2012. Consequently, net asset value jumped up to approximately HK$0.49 per Share.

Due to the revaluation of the carrying value of the Group in TTSA, available-for-sale financial assets more than doubled to reach HK$171,110,000. Included in the figure was carrying cost of TTSA of HK$83,217,000, carrying cost of MTNHL of HK$26,732,000 and yield-enhanced financial investments of approximately HK$61,161,000.

Level of inventories stood at HK$8,606,000 as at 31st December 2012. Maintaining low level of inventories is consistent with the policy employed by the Group to place orders to suppliers only upon confirmation of orders from customers so as to avoid ageing and obsolete stocks. Trade receivables edged up to HK$129,054,000 as at 31st December 2012, majority of which were within three months.

The Group continued to maintain a debt-free capital structure with no external borrowing. Cash and yield-enhanced financial instruments combined stood at approximately HK$139,490,000 as at 31st December 2012 as compared to approximately HK$125,000,000 as at 31st December 2011.

CORPORATE GOVERNANCE PRACTICES

The Company applied the principles in the Code by complying with the Code throughout the Year, except that:

1 the nomination committee of the Company did not review the structure, size and composition (including the skills, knowledge and experience) of the Board in the Year;

2 not all Directors participated in continuous professional development;

3 the independent non-executive Directors did not attend the AGM;

4 the management is yet to provide all Directors with monthly updates; and

5 there were slight differences between the terms of reference of the Audit Committee and the minimum requirements stated in the Code.

A.5.2(a)	The Board considers that such review will be necessary only when casual vacancy exists.
A.6.5	The Directors consider that briefing received from the company secretary of the Company is sufficient for them to render their contribution to the Board.
A.6.7	The independent non-executive Directors consider that such attendance could not help to develop a balanced understanding of the views of the Members because not many Members attended the AGM in past few years.
C.1.2	Management considers that quarterly updates and periodic instant updates when developments arising out of the ordinary business instead of monthly updates are sufficient for the Board to discharge its duties.
C3.3(e)(i) and C.3.7	The terms of reference of the Audit Committee were amended in accordance with the Code on 10th August 2012.

SUBSEQUENT EVENT

On 28th January 2013, the Company announced to exercise its pre-emptive right pursuant to the by-laws of TTSA to acquire a further 4,205 ordinary shares of US$10 each in the share capital of TTSA representing 0.96% of the total issued share capital of TTSA with a purchase price of approximately HK$4,709,000 from an independent third party.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company did not redeem any of the Shares during the Year. Neither the Company nor any of its subsidiaries purchased or sold any of the Shares during the Year.

DEFINITIONS

"AGM"	annual general meeting
"Audit Committee"	the audit committee of the Company
"Board"	the board of Directors
"Code"	the code provisions of the Code of Corporate Governance Practices (on and before 31st March 2012) or Corporate Governance Code (on and after 1st April 2012) set out in Appendix 15 of the GEM Listing Rules
"CNMS"	customer network management system
"Company"	Vodatel Networks Holdings Limited
"Director"	the director of the Company
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"ETC"	ETC Technology Limited, a company incorporated in Hong Kong with limited liability
"Exchange"	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
"GEM"	the Growth Enterprise Market 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 cent"	Hong Kong Cent, where 100 HK cents equal HK$1
"HK$"	Hong Kong Dollar, the lawful currency of Hong Kong
"HKAS"	Hong Kong Accounting Standard

"HKFRS"	financial reporting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong). They comprise 1. Hong Kong Financial Reporting Standards, 2. HKAS and 3. Interpretations
"Hong Kong"	the Hong Kong Special Administrative Region of PRC (not applicable to Hong Kong Accounting Standard, Hong Kong Exchanges and Clearing Limited, Hong Kong Financial Reporting Standards, Hong Kong (IFRIC) Interpretation, the Hong Kong Institute of Certified Public Accountants 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
"Member"	the holder of the Shares
"MTNHL"	Mobile Telecom Network (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability and ordinary shares of US$0.01 each in the share capital of MTNHL are listed on GEM
"OCI"	other comprehensive income
"Option"	a right to subscribe for the Shares granted pursuant to the share option scheme approved by the Members at a special general meeting on 5th November 2002
"PRC"	The People's Republic of China
"Share"	ordinary share of HK$0.10 each in the share capital of the Company
"Timor-Leste"	The Democratic Republic of Timor-Leste
"TSTSH"	泰思通軟件(上海)有限公司, incorporated in PRC with limited liability and an indirectly owned subsidiary of the Company
"TTSA"	Timor Telecom, S.A., a company incorporated in Timor-Leste with limited liability
"US$"	United States Dollar, the lawful currency of the United States of America

"VHL"	Vodatel Holdings Limited, incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
"Vodacabo"	Vodacabo, S A, incorporated in Timor-Leste with limited liability and an indirectly owned associate of the Company
"Year"	the year ended 31st December 2012

By order of the Board
José Manuel dos Santos
Chairman

Macao, 19th March 2013

Executive Directors
José Manuel dos Santos
Yim Hong
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.

This announcement will remain on the Internet website operated by the Exchange for the purposes of GEM on the "Latest Company Announcements" page for at least seven days from the date of posting and on www.irasia.com/listco/hk/vodatel/announcement/index.htm and www.vodatelsys.com.

** for identification purpose only*