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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 YEAR

- Registered revenue of HK\$259,820,000 for the Year, representing a decrease of 4.61% over the preceding year. Gross profit grew by 12.40% to reach HK\$82,291,000, translating to gross profit margin of 31.67%
- In the absence of dividends from TTSA, the Group reported a small loss before income tax of HK\$265,000
- Equity base amounted to HK\$283,755,000 with pledged deposits, cash and cash equivalents and yield-enhanced financial instruments standing at HK\$151,901,000 as at 31st December 2013
- Nominated by Galaxy Group again as their sub-contractor to design, supply, install, test and commission the surveillance system at the Galaxy Resort, this contract of which worth over HK\$300,000,000 (subject to final design and specifications)
- MDL again selected as one of the key service providers to the Government of Macao to support mission critical events, including the Legislative Assembly Election which took place on 15th September 2013
- TSTSH and TSTJX delivering another year of solid results and winning over HK\$30,000,000 of new contracts
- Profitability of TTSA being penalised due to pricing pressure as a result of introduction of aggressive marketing campaigns with competitive tariffs to defend its market positioning against competitions from the two new entrants
- The Directors do not recommend payment of a final dividend 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	
		2013 HK\$'000	2012 HK\$'000
Revenue	2	259,820	272,374
Cost of sales	4	<u>(177,529)</u>	<u>(199,161)</u>
Gross profit		82,291	73,213
Selling and marketing costs	4	(5,764)	(6,439)
Administrative expenses	4	(83,480)	(76,386)
Other income	5	<u>1,929</u>	<u>33,618</u>
Operating (loss)/profit		<u>(5,024)</u>	<u>24,006</u>
Finance income		3,581	4,263
Finance expenses		<u>(28)</u>	<u>(7)</u>
Finance income — net	6	3,553	4,256
Share of profit of associates		<u>1,206</u>	<u>3,095</u>
(Loss)/profit before income tax		(265)	31,357
Income tax expense	7	<u>(1,609)</u>	<u>(1,610)</u>
(Loss)/profit for the Year		<u>(1,874)</u>	<u>29,747</u>
(Loss)/profit attributable to:			
Owners of the Company		(3,919)	29,274
Non-controlling interests		<u>2,045</u>	<u>473</u>
		<u>(1,874)</u>	<u>29,747</u>
(Loss)/earnings per Share attributable to owners of the Company for the Year (expressed in HK cents per Share)			
Basic (loss)/earnings per Share	8	<u>(0.64)</u>	<u>4.77</u>
Diluted earnings per Share	8	<u>Not applicable</u>	<u>4.77</u>
Dividends (expressed in HK\$'000)	9	<u>—</u>	<u>15,345</u>

Consolidated balance sheet

		As at	
		31st December	
	Note	2013	2012
		HK\$'000	HK\$'000
Assets			
Non-current assets			
Property, plant and equipment		2,337	1,705
Investments in associates		4,806	3,600
Available-for-sale financial assets		<u>135,917</u>	<u>151,429</u>
		<u>143,060</u>	<u>156,734</u>
Current assets			
Inventories		14,657	8,606
Trade receivables	10	86,576	129,054
Other receivables, deposits and prepayments		22,220	23,365
Available-for-sale financial assets		5,074	19,681
Pledged bank deposits		26,634	615
Cash and cash equivalents		<u>96,864</u>	<u>78,328</u>
		<u>252,025</u>	<u>259,649</u>
Liabilities			
Current liabilities			
Trade and bills payables	11	60,155	58,524
Other payables and accruals		43,569	53,508
Current income tax liabilities		<u>7,606</u>	<u>5,936</u>
		<u>111,330</u>	<u>117,968</u>
Net current assets		<u>140,695</u>	<u>141,681</u>
Total assets less current liabilities		<u>283,755</u>	<u>298,415</u>

		As at	
		31st December	
	Note	2013	2012
		HK\$'000	HK\$'000
Financed by:			
Equity			
Equity attributable to owners of the Company			
Shares		61,382	61,382
Other reserves	12	231,390	231,993
(Accumulated losses)/retained earnings	12		
— Proposed final dividend		—	6,138
— Proposed special dividend		—	6,138
— Others		<u>(12,670)</u>	<u>(8,751)</u>
		280,102	296,900
Non-controlling interests		<u>3,653</u>	<u>1,515</u>
Total equity		<u>283,755</u>	<u>298,415</u>

The audited consolidated results of the Group for the Year were reviewed by the audit committee of the Company.

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, which were carried at fair value.

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 — New and amended standards adopted by the Group

The following standards were adopted by the Group for the first time for the financial year beginning on or after 1st January 2013 and had a material impact on the Group:

Amendment to HKAS 1, 'Presentation of Financial Statements' regarding OCI. The main change resulting from these amendments was a requirement for entities to group items presented in OCI on the basis of whether they were potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The Group presents its financial statements in accordance to this standard.

HKFRS 12, 'Disclosures of Interests in Other Entities' included the disclosure requirements for associates. The Group presents its financial statements in accordance to this standard.

The following new standards, interpretations and amendments published were mandatory for the accounting year of the Group beginning on 1st January 2013. The adoption of these new standards, interpretations and amendments had no significant impact on the financial statements.

HKAS 19 (Amendment)	Employee Benefits
HKAS 27 (revised 2011)	Separate Financial Statements
HKAS 28 (revised 2011)	Investments in Associates and Joint Ventures
HKFRS 1 (Amendments)	First-time Adoption of HKFRS — Government Loans
HKFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance
HKFRS 13	Fair Value Measurement
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

- (b) *New standards, interpretations and amendments that are effective for the accounting periods of the Group beginning on or after 1st January 2014 and were not early adopted*

HKAS 19 (2011) (Amendment)	Defined Benefit Plans: Employee Contributions ²
HKAS 32 (Amendment)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities ¹
HKAS 36 (Amendment)	Impairment of Assets ¹
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement — Novation of Derivatives and Hedge Accounting ¹
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date and Transition Disclosures ³
HKFRS 9	Financial Instruments: Classification and Measurement ³
HKFRS 9 (Amendment)	Financial Instruments — General Hedge Accounting ⁴
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments)	Exemption from Consolidation for Investment Entities ¹
HKFRS 14	Regulatory Deferral Accounts ⁵
HK(IFRIC)-Int 21	Levies ¹
Annual Improvements Project	Annual Improvements 2010 - 2012 Cycle ²
Annual Improvements Project	Annual Improvements 2011 - 2013 Cycle ²

(1) Effective for annual periods beginning on or after 1st January 2014

(2) Effective for annual periods beginning on or after 1st July 2014

(3) Effective for annual periods beginning on or after 1st January 2015

(4) No mandatory effective date yet determined but is available for adoption

(5) Effective for annual periods beginning on or after 1st January 2016

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 taxes. 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 of return on historical results, taking into consideration the type of customer, the type of transaction and 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 purposes 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 integration; 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 expenditure 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 from external customers	
	2013	2012
	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	38,006	52,058
- Hong Kong and Macao	186,870	195,063
CNMS	34,944	25,253
Total	259,820	272,374

EBITDA

	Adjusted EBITDA	
	2013	2012
	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	5,253	4,381
- Hong Kong and Macao	(22,421)	(15,248)
CNMS	13,535	5,530
Dividend income	(3,633)	(5,337)
	170	32,575
Total	(3,463)	27,238
Depreciation	(846)	(685)
Finance income - net	3,553	4,256
Profit on disposal of available-for-sale financial assets	491	187
Profit on disposal of subsidiaries	—	361
(Loss)/profit before tax	(265)	31,357

Other profit and loss disclosures

	2013			2012		
	Depreciation HK\$'000	Income tax expense HK\$'000	Share of profit of associates HK\$'000	Depreciation HK\$'000	Income tax expense HK\$'000	Share of profit of associates 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	(138)	31	—	(44)	15	—
- Hong Kong and Macao	(346)	—	1,206	(317)	(33)	3,095
CNMS	<u>(362)</u>	<u>1,578</u>	<u>—</u>	<u>(324)</u>	<u>1,628</u>	<u>—</u>
Total	<u>(846)</u>	<u>1,609</u>	<u>1,206</u>	<u>(685)</u>	<u>1,610</u>	<u>3,095</u>

Assets

	2013			2012		
	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	34,126	—	212	41,186	—	346
- Hong Kong and Macao	198,132	4,806	751	187,301	3,600	349
CNMS	<u>21,836</u>	<u>—</u>	<u>491</u>	<u>16,786</u>	<u>—</u>	<u>450</u>
Total	<u>254,094</u>	<u>4,806</u>	<u>1,454</u>	<u>245,273</u>	<u>3,600</u>	<u>1,145</u>

Unallocated

Available-for-sale financial assets	<u>140,991</u>	<u>171,110</u>
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Total assets per the balance sheet

<u>395,085</u>	<u>416,383</u>
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The amounts provided to the executive Directors with respect to total assets were measured in a manner consistent with that of the 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 the revenue from all services is as follows:

Analysis of revenue by category

	2013 HK\$'000	2012 HK\$'000
Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services	224,876	247,121
CNMS	<u>34,944</u>	<u>25,253</u>
	<u>259,820</u>	<u>272,374</u>

Revenue of approximately HK\$70,387,000 (2012: HK\$71,085,000) was derived from a single group of 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

	2013 HK\$'000	2012 HK\$'000
Changes in inventories	146,612	172,612
Depreciation	846	685
Provision/(reversal of provision) on inventories	2,433	(3,166)
Provision/(reversal of provision) on trade receivables	788	(1,188)
Employee benefit expense and independent non-executive Directors' emoluments	<u>57,581</u>	<u>54,375</u>

5 Other income

Other income included dividend income on a listed available-for-sale financial asset of HK\$170,000 (2012: HK\$168,000). There was no dividend income on an unlisted available-for-sale financial asset for the Year (2012: HK\$32,407,000). It also included loss on disposal of unlisted available-for-sale financial assets of HK\$409,000 (2012: profit of HK\$187,000). It also included profit on disposal of listed available-for-sale financial assets of HK\$900,000 (2012: Nil). There was no profit on disposal of subsidiaries for the Year (2012: HK\$361,000).

6 **Finance income and costs**

	2013 HK\$'000	2012 HK\$'000
Interest expense:		
— Bank borrowings wholly repayable within five years	(28)	(7)
Total finance expenses	(28)	(7)
Finance income:		
— Interest income on short-term bank deposits	886	752
— Interest income on available-for-sale financial assets	2,695	2,430
— Others	—	1,081
Finance income	3,581	4,263
Net finance income	3,553	4,256

7 **Income tax expense**

Hong Kong profits tax was provided at the rate of 16.5% (2012: 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.

	2013 HK\$'000	2012 HK\$'000
Current tax:		
Current tax on profits for the Year		
- Macao complementary profits tax	—	109
- Mainland China corporate income tax	1,594	1,670
Adjustments in respect of prior years	15	(169)
Income tax expense	1,609	1,610

The tax on the (loss)/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:

	2013 HK\$'000	2012 HK\$'000
(Loss)/profit before tax	(265)	31,357
Tax calculated at the domestic tax rates applicable to profits in the respective regions	(581)	2,946
Tax effects of:		
- Income not subject to tax	(184)	(3,286)
- Expenses not deductible for tax purposes	331	1,257
- Utilisation of previously unrecognised tax losses	(865)	(662)
- Tax losses for which no deferred income tax asset was recognised	2,893	1,524
Adjustments in respect of prior years	15	(169)
Tax charge	1,609	1,610

The weighted average applicable tax rate was 11.08% (2012: 7.72%). 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 (2012: Nil).

8 (Loss)/earnings per Share

(a) Basic

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

	2013 HK\$'000	2012 HK\$'000
(Loss)/profit attributable to owners of the Company	<u>(3,919)</u>	<u>29,274</u>
Weighted average number of Shares in issue (thousands)	<u>613,819</u>	<u>613,819</u>

(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. No diluted earnings per Share for the Year was presented as all the Options expired during the Year and there were no outstanding options as at 31st December 2013. As at 31st December 2012, the Company had 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 ended 31st December 2012. Accordingly, diluted earnings per Share was identical to basic earnings per Share for the year ended 31st December 2012.

9 Dividends

The dividends paid in the Year and the year ended 31st December 2012 were HK\$12,276,000 (HK\$0.02 per Share) and HK\$6,138,000 (HK\$0.01 per Share) respectively. The Directors do not recommend payment of a dividend for the Year.

	2013 HK\$'000	2012 HK\$'000
No interim dividend paid (2012: HK\$0.005 per Share)	—	3,069
No proposed final dividend (2012: HK\$0.01 per Share)	—	6,138
No proposed special dividend (2012: HK\$0.01 per Share)	<u>—</u>	<u>6,138</u>
	<u>—</u>	<u>15,345</u>

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 2013 and 2012, the ageing analysis of the trade receivables based on invoice date was as follows:

	2013 HK\$'000	2012 HK\$'000
Within three months	75,425	83,948
> Three months but ≤ six months	5,989	14,998
> Six months but ≤ twelve months	2,566	4,247
Over twelve months	<u>17,240</u>	<u>93,921</u>
	101,220	197,114
Less: allowance for impairment of trade receivables	<u>(14,644)</u>	<u>(68,060)</u>
	<u><u>86,576</u></u>	<u><u>129,054</u></u>

11 Trade and bills payables

As at 31st December 2013, the ageing analysis of the trade and bills payables (including amounts due to related parties of a trading nature) based on invoice date was as follows:

	2013 HK\$'000	2012 HK\$'000
Within three months	52,104	50,513
> Three months but ≤ six months	277	1,038
> Six months but ≤ twelve months	52	138
Over twelve months	<u>7,722</u>	<u>6,835</u>
	<u><u>60,155</u></u>	<u><u>58,524</u></u>

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 2012	97,676	4,178	702	23,730	35,549	49	3,450	165,334	(19,611)
Revaluation - gain	—	—	—	66,465	—	—	—	66,465	—
Revaluation transfer to profit or loss	—	—	—	466	—	—	—	466	—
Released upon disposal of subsidiaries	—	—	—	—	—	—	(164)	(164)	—
Currency translation differences	—	—	—	—	—	—	(108)	(108)	—
Profit for the year ended 31st December 2012	—	—	—	—	—	—	—	—	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
Revaluation - gain	—	—	—	2,277	—	—	—	2,277	—
Revaluation transfer to profit or loss	—	—	—	(3,054)	—	—	—	(3,054)	—
Currency translation differences	—	—	—	—	—	—	174	174	—
Loss for the Year	—	—	—	—	—	—	—	—	(3,919)
Dividends paid relating to 2012	—	—	—	—	—	—	—	—	(12,276)
As at 31st December 2013	<u>97,676</u>	<u>4,178</u>	<u>702</u>	<u>89,884</u>	<u>35,549</u>	<u>49</u>	<u>3,352</u>	<u>231,390</u>	<u>(12,670)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF BUSINESS ACTIVITIES

During the Year, the Group continued to operate under the “Multiple Branding” philosophy, with “Vodatel”, “Mega Datatech” and “Tidestone” each positioned to achieve market differentiation, yet complementing one another in product and service offerings. Working towards the long-term business goal that aims to become a “One-Stop Shopper”, the Group made small, yet critical, steps to customise relationships with its customers as they developed expectations about level of choices and service requirements that match their demands, values and aspirations.

Business in Macao and Hong Kong

The Group has not experienced any radical change to its vendor mix and has continued to focus as being a system integrator that anchors on the distinctive products of its vendors. International renovated manufacturers such as Pelco by Schneider Electric, Juniper Networks, Hewlett-Packard, Microsoft and Motorola remain the dominant vendor category in the products and services mix in Macao and Hong Kong, providing not just surveillance solutions and networking equipment but also a comprehensive range of turnkey solutions for the customers of the Group that have specific needs in enterprise information technology infrastructure and customised applications.

In the Year, the Group achieved a number of landmark projects including being nominated by Galaxy Group again as their sub-contractor to design, supply, install, test and commission the surveillance system at the Galaxy Resort, this contract of which worth over HK\$300,000,000 (subject to final design and specifications). Other landmark contracts secured included being one of the core system integrators to provide turnkey solutions in networking infrastructure, trunking radio and office networks at the new campus of the University of Macau on Hengqin Island and being selected again as one of the key service providers to the Government of Macao to support mission critical events, including the Legislative Assembly Election which took place on 15th September 2013. The Group was also elected as the integration partner by the electricity bureau in Macao to install and commission the electric vehicle charging stations, the first of such kind in Macao, and gained the trust of one of the largest banks in Macao to develop a customised documentation control solution to facilitate further efficiency gains in one of their key departments.

During the Year, the Government of Macao continued to be the biggest customer of the Group. Numerous contracts in the areas of surveillance and networking infrastructure, trunking radio, server and office platforms and in the provision of customised software solutions and on-going maintenance service support were awarded by different bureaus, including Civic and Municipal Affairs Bureau, Public Administration and Civil Service Bureau, Public Security Forces Affairs Bureau, to name a few. Coupled with those contracts secured from different gaming and hospitality operators in Macao and various telecommunications service providers in Hong Kong, the Group built a strong pipeline of works for the Year and the new financial year.

Business in Mainland China

In Mainland China, the main focus of the Group remains in the provision of maintenance support services to the data networks of various telecommunications service providers which carry higher operating margins. During the Year, total maintenance services contracts worth over HK\$15,000,000 were awarded by telecommunications service providers in the provinces of Hebei, Shanxi, Liaoning, Guizhou, Anhui, Hunan and Guangdong, the municipality of Shanghai and the autonomous region of Guangxi.

Subsequent to a turnaround in 2012, TSTSH and TSTJX continued to deliver solid results. During the Year, TSTSH and TSTJX focused on completing the final acceptances of various contracts previously awarded and concurrently secured new wins from telecommunications service providers in the provinces of Hubei, Jiangxi, Jiangsu, Shanxi, Shandong and Guangdong, municipalities of Chongqing and Shanghai and autonomous region of Inner Mongolia to install various modules of its CNMS, among which included the intelligent environment monitoring system, integrated network and service management system, integrated fault management system and integrated network management system. TSTSH and TSTJX continued to be selected as trusted partners for the armed police force in Mainland China to install its operational control and duty carrying information system. The off-the-shelf food production quality control and trace module of TSTJX continued to be well-received by the market too, successfully selling to over seventy-five manufacturers of wine, tea, additives and health products. Total new contracts secured during the Year exceeded HK\$30,000,000.

Investments Holdings Activities

TTSA

Operating performance at TTSA was affected by the competitive dynamics and the aggressive pricing environment brought by the entry of the two new operators who have high financial and operational capacities to invest heavily in infrastructure and marketing with the aim of capturing considerate market share. Notwithstanding the ability to uphold its position as the market leader, the profitability of TTSA has been penalised by pricing pressure as TTSA introduced aggressive marketing campaigns with competitive tariffs to defend its market positioning against competition in the price-sensitive telecommunications market in Timor-Leste.

During the Year, TTSA registered revenue of HK\$482,673,000, representing a drop of 16.58% as compared to 2012 with EBITDA sliding 26% to HK\$238,680,000. TTSA continued to meet with high depreciation and amortisation charges, attributable to heavy investment made in infrastructure in previous years to expand and enhance its mobile coverage and hefty capital expenditures to improve its distribution networks via launching new shops and renovating existing ones and strengthening its indirect distribution channels. Consequently, net profit of TTSA for the Year fell 62.5% as compared to the previous year.

During the Year, no dividends have been received against the operating results of TTSA for 2012. To maintain adequate financial and operational flexibility to defend its competitive position in the market during 2014, it has been proposed that no dividends will be declared to its shareholders against the operating results of TTSA for the Year.

Albeit the market in Timor-Leste remained resilient, the Group is still confident about the prospect of TTSA, hence in January 2013, the Group exercised its pre-emptive rights to increase its shareholding in TTSA by 0.96% at a consideration of HK\$4,709,000. The shareholding of the Group in TTSA now stands at 17.86%.

Other Investments

The Group has holdings in a number of other assets. Vodacabo, which engaged principally in the construction of telecommunications sites, installation of energy structures and provision of network audits, continued to achieve positive operating performance during the Year. Due to changing landscape that could potentially adversely affect the future operating environment in Timor-Leste for companies similar to those of Vodacabo, it is expected that the Group will need to make a critical judgement with respect to its on-going viability.

Another investment holding pertained to GTGIL, which is principally engaged in the provision of mobile applications and data solutions, trading of electronic parts and components in relation to display modules and touch panel modules, property development and property investment. During the Year, the Group disposed 40,000,000 GTGIL Shares. As a non-core asset of the Group, it is the intention to gradually dispose all its shareholdings in GTGIL during the new financial year. Subsequent to the initial disposal made during the Year, as at 31st December 2013, the Group held 115,419,392 GTGIL Shares.

REVIEW OF OPERATING RESULTS

Turnover and Profitability

During the Year, the Group reported revenue of HK\$259,820,000, with the Government of Macao remained the largest customer of the Group. Although this revenue represented a drop of 4.61% as compared to 2012, the Group witnessed continuous improvements to its operating performance, with gross profit reaching HK\$82,291,000 or a climb of 12.40% over 2012 and gross profit margin hiking to 31.67% as compared to 26.88% for last year. The improvement in gross profit followed completion of an increased number of software development projects by TSTSH and TSTJX, and the undertaking of various maintenance support services by MDL, VHL and its subsidiaries across the key markets in Mainland China, Macao and Hong Kong.

Administrative expenses rose in tandem with the need to ramp up staff costs, in particular to recruit more technical staff and to retain existing talents within the Group in Macao. Staff costs accounted for approximately 70% of total operating expenses. During the Year, the Group experienced an overall increase to its staff costs by 5.90%, of which the increase attributable to the staff costs in Macao exceeding 15%. Higher staff costs experienced in Macao was also the result of the introduction of incentives programmes to motivate employees to engage in training so as to further enhance their skills and knowledge about the products that the Group carried. To align with market practice regarding remuneration packages offered by the competitors of the Group in Macao, the Group restructured its

remuneration scheme for the sales teams so that the percentage split of their total package between basic salary and commission will be tilted towards the former. While this also ascribed to an increase in total staff costs, a decrease in total selling and marketing costs, which comprised sales commission paid to the sales teams, was noted.

Albeit improvements to the operating performance of the core business, in the absence of dividends payment from TTSA, the Group reported a small loss before income tax of HK\$265,000 for the Year.

Capital Structure and Financial Resources

In the absence of cash inflows in the form of dividends from TTSA, the Group continued to have close monitoring of its level of trade receivables so as to improve its recovery, hence its cashflow. Pledged deposits, cash and cash equivalents and value of yield-enhanced financial instruments aggregated HK\$151,901,000 or approximately HK\$0.25 per Share as at 31st December 2013. To provide sufficient working capital to be deployed against the pipeline of works, the Group liquidated part of its yield-enhanced financial investments and disposed 40,000,000 GTGIL Shares.

The Group continued to practise prudent financial management and exercise capital discipline. Equity base of the Group stood at HK\$283,755,000 or HK\$0.46 per Share. The balance sheet of the Group remained strong and healthy with no gearing, which provided room to leverage its balance sheet for finance future growth where necessary.

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 held in the Year;
- 4 the management do not provide all Directors with monthly updates; and
- 5 the Chairman of the Board did not attend the AGM held in the Year.

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.
- E.1.2 The Chairman of the Board was away on a business trip on the date of AGM.

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
“Board”	the board of Directors
“CNMS”	customer network management system
“Code”	the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules
“Company”	Vodatel Networks Holdings Limited
“Director”	the director of the Company
“EBITDA”	earnings before interest, tax, depreciation and amortisation
“Exchange”	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
“Galaxy Group”	Galaxy Entertainment Group Limited, a company incorporated in Hong Kong with limited liability and its ordinary shares of HK\$0.10 each in its share capital are listed on the Exchange, and its subsidiaries
“Galaxy Resort”	Galaxy Resort & Casino, Cotai City, Macao
“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 (not applicable to Galaxy Group, Galaxy Entertainment Group Limited and Gold Tat Group International Limited)
“GTGIL”	Gold Tat Group International Limited, a company incorporated in the Cayman Islands with limited liability and GTGIL Shares are listed on GEM

“GTGIL Share”	ordinary share of US\$0.001 each in the share capital of GTGIL
“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
“HK(IFRIC)-Int”	Hong Kong (IFRIC) Interpretation
“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
“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 (not applicable to GTGIL Share)
“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 indirectly owned subsidiary of the Company
“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 2013

By order of the Board
José Manuel dos Santos
Chairman

Macao, 24th March 2014

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*