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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

- Revenue of HK$451,371,000 for the Year reported, which represented a 28.87% increase as compared to the preceding year. Net profit levelled at HK$6,306,000 as a result of the booking of, among others, share-based payment expenses of HK$3,264,000

- Due to the revaluation of TTSA that resulted in a downward adjustment to its carrying cost, equity base of the Group amounted to HK$237,781,000 with restricted cash, cash and cash equivalents and value of corporate bonds standing at HK$108,006,000 as at 31st December 2016

- Strong business generated from Macao and Hong Kong, with VHL securing a major surveillance project and a major data network infrastructure project from a gaming operator at its new gaming and hospitality complex in Cotai Strip in Macao and with total contracts secured from customers in Hong Kong doubled on a year-on-year basis

- Business generated from Mainland China, including those from TSTSH and TSTJX, not as fruitful as those in Macao and Hong Kong. Realigning of the resources of its entities in Mainland China commenced during the Year and to extend into 2017 with possible business collaboration with TSTSH and TSTJX during 2017

- The Directors recommend the payment of a final 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 2016 HK$'000	2015 HK$'000
Revenue	2	**451,371**	350,263
Cost of sales	3	**(338,988)**	(243,283)
Gross profit		**112,383**	106,980
Selling and marketing costs	3	**(9,583)**	(7,753)
Administrative expenses	3	**(94,013)**	(93,974)
Other (loss)/income		**(1,155)**	765
Share-based payment expenses		**(3,264)**	—
Operating profit		**4,368**	6,018
Finance income		**3,083**	3,476
Finance expenses		**(35)**	(191)
Finance income — net		**3,048**	3,285
Share of loss of an associate		**(3)**	(649)
Profit before income tax		**7,413**	8,654
Income tax expense	4	**(1,107)**	(2,194)
Profit for the Year		**6,306**	6,460
Profit attributable to:			
Owners of the Company		**8,989**	7,253
Non-controlling interests		**(2,683)**	(793)
		6,306	6,460
Earnings per Share attributable to owners of the Company for the Year (expressed in HK cents per Share)			
Basic and diluted earnings per Share	5	**1.46**	1.18
Dividends (expressed in HK$'000)	6	**6,144**	6,138

Consolidated Statement of Comprehensive Income

	Year ended 31st December	
	2016	2015
	HK$'000	HK$'000
Profit for the Year	**6,306**	6,460
Other comprehensive expense:		
Items that may be reclassified to profit or loss		
Change in value of AFS financial assets	**(32,852)**	(13,943)
Revaluation transfer to profit or loss	**1,541**	709
Currency translation differences	**(144)**	(342)
Other comprehensive expense for the Year, net of tax	**(31,455)**	(13,576)
Total comprehensive expense for the Year	**(25,149)**	(7,116)
Attributable to:		
- Owners of the Company	**(22,442)**	(6,232)
- Non-controlling interests	**(2,707)**	(884)
Total comprehensive expense for the Year	**(25,149)**	(7,116)

Consolidated balance sheet

	Note	As at 31st December 2016 HK$'000	2015 HK$'000
Assets			
Non-current assets			
Property, plant and equipment ("PPE")		**2,646**	2,405
Investment in an associate		**801**	804
AFS financial assets		**39,402**	93,705
		42,849	96,914
Current assets			
Inventories		**27,713**	13,674
Current income tax recoverable		**4**	427
Trade receivables	7	**224,738**	135,606
Other receivables, deposits and prepayments		**26,569**	24,546
Amount due from an associate		**—**	1,197
AFS financial assets		**11,236**	2,421
Cash and cash equivalents		**64,122**	77,495
Restricted cash		**24,895**	26,047
		379,277	281,413
Assets classified as held for sale		**—**	1,008
		379,277	282,421
Liabilities			
Current liabilities			
Trade and bills payables	8	**118,522**	47,204
Other payables and accruals		**57,236**	55,047
Current income tax liabilities		**8,587**	11,280
		184,345	113,531
Net current assets		**194,932**	168,890
Total assets less current liabilities		**237,781**	265,804

	Note	As at 31st December 2016 HK$'000	2015 HK$'000
Financed by:			
Equity			
Equity attributable to owners of the Company			
Share capital		**61,382**	61,382
Other reserves		156,501	184,668
Retained earnings			
— Proposed final dividend	6	6,144	6,138
— Others		14,898	12,053
		238,925	264,241
Non-controlling interests		(1,144)	1,563
Total equity		237,781	265,804

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 all applicable HKFRS. The consolidated financial statements were prepared under the historical cost convention, as modified by the revaluation of AFS 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 amendments to standards were adopted by the Group for the first time for the financial year beginning on or after 1st January 2016:

Amendments to HKFRS 11, "Joint Arrangements" — "Accounting for acquisitions of interests in joint operations".

Amendments to HKAS 16, "PPE" and HKAS 38, "Intangible Assets" — "Clarifications of acceptable methods of depreciation and amortisation".

Annual improvements to HKFRS 2012 — 2014 Cycle.

Amendments to HKAS 1 (Revised), "Presentation of Financial Statements" — "Disclosure initiative".

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

(b) *Changes in accounting policy and disclosures — New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1st January 2016 and were not applied in preparing these consolidated financial statements. None of these was expected to have significant effect on the consolidated financial statements of the Company, except the following set out below:

(i) *HKFRS 9, "Financial Instruments"*

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

While the Group has yet to undertake a detailed assessment of the classifications and measurement of financial assets, debt instruments currently classified as AFS financial assets would appear to satisfy the conditions for classifications as at FVOCI and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include:

- Equity instruments currently classified as available for sale for which an FVOCI election is available
- Equity investments currently measured at FVPL which would likely continue to be measured on the same basis under HKFRS 9

Accordingly, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the accounting of the Group for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39, "Financial Instruments: Recognition and Measurement" and have not been changed.

The new hedge accounting rules will have no impact on the accounting of the Group as it does not have any hedging instruments.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified as amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15, "Revenue from Contracts with Customers", lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in an earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the disclosures of the Group about its financial instruments particularly in the year of the adoption of the new standard.

HKFRS 9 must be applied for financial years commencing on or after 1st January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1st February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

(ii) *HKFRS 15*

HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18, "Revenue" which covers contracts for goods and services and HKAS 11, "Construction Contracts" which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the financial statements of the Group and has identified the following areas that are likely to be affected:

- revenue from service — the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue,

- accounting for certain costs incurred in fulfilling a contract — certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15, and

- rights of return — HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the impact of the new rules on the financial statements of the Group. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1st January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

(iii) *HKFRS 16, "Leases"*

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for operating leases of the Group. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$5,364,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the profit of the Group and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1st January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other HKFRS or Hong Kong (IFRIC) Interpretations that are not yet effective that would be expected to have a material impact on the Group.

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 customers, the type of transactions and the specifics of each arrangement.

(a) *Project sales*

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.

(b) *Sales of services*

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.

(c) *Sales of software*

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

Analysis of revenue by category

	2016	2015
	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	**434,531**	324,303
CNMS	**16,840**	25,960
	451,371	350,263

3 Expenses by nature

	2016	2015
	HK$'000	HK$'000
Changes in inventories	**295,773**	190,829
Provision on inventories	**266**	2,085
Provision on trade receivables, net	**677**	1,151
Employee benefit expense and Directors' emoluments	**60,925**	66,198

4 Income tax expense

Hong Kong profits tax was provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the Year. Taxation on non-Hong Kong 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.

	2016	2015
	HK$'000	HK$'000
Current tax:		
Current tax on profits for the Year		
- Hong Kong profits tax	**—**	4
- Macao complementary profits tax	**2,217**	1,760
- Mainland China corporate income tax	**23**	450
Adjustments in respect of prior years	**(1,133)**	(20)
Income tax expense	**1,107**	2,194

The tax on profit before 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:

	2016	2015
	HK$'000	HK$'000
Profit before tax	**7,413**	8,654
Tax calculated at domestic tax rates applicable to profits in the respective regions	**104**	680
Tax effects of:		
- Income not subject to tax	**(478)**	(397)
- Expenses not deductible for tax purposes	**561**	635
- Utilisation of previously unrecognised tax losses	**(341)**	(781)
- Tax losses for which no deferred income tax asset was recognised	**2,394**	2,077
Adjustments in respect of prior years	**(1,133)**	(20)
Tax charge	**1,107**	2,194

The weighted average applicable tax rate was 14.93% (2015: 25.35%). The change was caused by a change in the profitability of the subsidiaries of the Company in the respective regions and over provision of income tax in prior years.

5 **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.

	2016	2015
	HK$'000	HK$'000
Profit attributable to owners of the Company	**8,989**	7,253
Weighted average number of Shares in issue (thousands)	**613,819**	613,819

(b) *Diluted*

Diluted earnings per Share for the Year was the same as the basic earnings per Share since the exercise of the Options would have an anti-dilutive effect on the profit per Share. No diluted earnings per Share for the year ended 31st December 2015 were presented as there were no outstanding Options as at 31st December 2015.

6 Dividends

The dividends paid in the Year and the year ended 31st December 2015 were HK$6,138,000 (HK$0.01 per Share) and HK$6,138,000 (HK$0.01 per Share) respectively. A final dividend in respect of the Year of HK$0.01 per Share, amounting to a total dividend of HK$6,144,000, is 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 this dividend payable.

	2016	2015
	HK$'000	HK$'000
Proposed final dividend of HK$0.01 (2015: HK$0.01) per Share	**6,144**	6,138

7 **Trade receivables**

As at 31st December 2016 and 2015, the ageing analysis of the trade receivables based on invoice date was as follows:

	2016	2015
	HK$'000	HK$'000
Within three months	**177,569**	103,999
> Three months but ≤ six months	**11,006**	15,123
> Six months but ≤ twelve months	**1,337**	4,366
Over twelve months	**49,451**	27,242
	239,363	150,730
Less: allowance for impairment of trade receivables	**(14,625)**	(15,124)
	224,738	135,606

8 **Trade and bills payables**

As at 31st December 2016, the ageing analysis of the trade and bills payables based on invoice date was as follows:

	2016	2015
	HK$'000	HK$'000
Within three months	**103,795**	39,117
> Three months but ≤ six months	**196**	504
> Six months but ≤ twelve months	**6,948**	215
Over twelve months	**7,583**	7,368
	118,522	47,204

MANAGEMENT DISCUSSION AND ANALYSIS

VODATEL — AT A GLANCE!

Headquartered in Macao, Vodatel is an integrated company that operates 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. Always putting customers first, the primary driver at Vodatel is to become the partner-of-choice of its customers when they are seeking a local partner for turnkey solutions or service provisioning to align their expectations in level of choices and service requirements and matches their demands, values and aspirations.

REVIEW OF BUSINESS ACTIVITIES

Business in Macao and Hong Kong

As a system integrator and service provider that already represents a list of international and renowned manufacturers, the Group is in continuous pursuit to identify products with high potential within their areas of expertise to grow and complement its current products and service offerings. In terms of human resources, the Group remains a major player in Macao reputable to house an inventory of highly trained, skilled and experienced engineers, thus making MDL and VHL among the most sought companies to provide round-the-clock and reliable system maintenance and support services, in particular for the handling of sophisticated turnkey solutions, where unexpected hiccups, if not promptly resolved or contained, can potentially result in significant business and/or service interruptions.

At VHL, subsequent to the nomination by a gaming operator in November 2015 to design, supply, install and commission a surveillance system at its new gaming and hospitality complex in the Cotai Strip, in April 2016, VHL was selected again by the same gaming operator to supply and deploy the full data network infrastructure at the same location. Being awarded these two projects not only strongly reiterated the capacity of VHL as a solid local systems integrator to take on sizable projects requiring a strong financial position, but the confidence of the client over the ability in VHL to deliver complex system infrastructure that requires careful design, sophisticated project planning, quality implementation skills and project management capabilities.

2016 was a year where the gaming and hospitality sector continued to face headwinds from changing market conditions that included, but not limited to, introduction of smoking restrictions, initiatives introduced by the Government of PRC to curb corruption, tightened regulations over gaming promoters and limitations over duration of stay for mainland travellers. Nevertheless, boosted by new resorts including Wynn Palace by Wynn Resorts, Limited (opened on 22nd August 2016) and The Parisian by Sands China Limited, a subsidiary of Las Vegas Sands Corp. (opened on 13th September 2016), together with gaming operators calling for revamp or retrofit over some of their aged infrastructure, both VHL and MDL made remarkable achievements. During the Year, excluding the two major projects being awarded by a gaming operator as above-mentioned, VHL and MDL secured approximately HK$80,000,000 worth of contracts in aggregate from different gaming and hospitality operators, representing over 60% growth as compared to 2015. For one gaming operator where the Group did not have a strong footing, as VHL continued to provide support to its surveillance division, MDL, through cross selling opportunity and competitive pricing strategy, successfully penetrated into its information technology division, resulting in total contracts received by VHL and MDL almost doubled in 2016 over 2015. While this business growth was at the expense of profit margins, the Group is confident that as it further penetrates into this gaming operator and gradually expands its product offerings, the Group will be able to pick up on the margins.

Except for years where the Group has secured and won major projects from gaming operators building new gaming premises, the Government of Macao has, over the years, remained one of the biggest clients of the Group. During the Year, both MDL and VHL continued to be chosen as the solution and service providers of turnkey solutions in the areas of servers, storage, security, surveillance and networking and in the provision of customised software solutions and on-going maintenance service support to various universities and different bureaus under the Government of Macao, including the Office of the Chief Executive, Social Security Fund, Health Bureau, Public Security Forces Affairs Bureau, Identification Services Bureau, Housing Bureau, Civic and Municipal Affairs Bureau, to name a few. Since the introduction to the Government of Macao of "premier support services", which involves partnering with vendor to proactively assist the customer to maximise IT resources, ensure the health status of IT operations, provide customised and personal service management and deliver prioritised 24/7 problem resolution support, MDL continued to receive positive feedback in 2016. In addition to securing contracts from the Government of Macao, such as Health Bureau, Public Security Forces Affairs Bureau and Cultural Industries Fund, "premier support services" were successfully deployed at banks and large local enterprises.

During the Year, the strategic direction of the Group has been to further expand its reach to existing and new telecommunications service providers via broadening its array of services offerings in Hong Kong. The Group considerably invested in its Hong Kong team, expanding from provision of networking equipment to projects that involved construction of data networks infrastructure. Coupled with the strong support from its networks vendors, very positive results were yielded. While penetrating further into existing telecommunications service providers, the Group successfully brought in two new clients, securing total contracts in excess of HK$90,000,000 for the Year, which represented 100% growth from 2015. With such encouraging results, it is the intention of the Group to further expand its team in 2017 and concurrently, to diversify its portfolio, both in products and services offerings.

Business in Mainland China

Business prospects related to Mainland China were less impressive during the Year. While the Group continued to run its traditional business that involves the provision of maintenance support services to telecommunications service providers over their narrow band data networks, in anticipation of possible weak business opportunities in upcoming years, the Group realigned its resources so that the Group could gradually shy away from any overly competitive traditional business in terms of margins and payment terms and to pave way for eventually moving into the area of construction of data networks infrastructure of similar nature to those in Macao and Hong Kong. Consequently, although maintenance contracts were secured from telecommunications service providers in the provinces of Anhui, Hebei, Hunan, Shanxi and Liaoning and the municipality of Shanghai, total business generated from its entities in Mainland China dropped approximately 40% on a year-on-year basis. As the Group will continue the exercise to identify areas with more promising business opportunities, it is expected that further restructuring of resources will take place during 2017.

2016 was also not a fruitful year for TSTSH and TSTJX as telecommunications service providers remained cautious over their capital expenditures and CNMS failed to be among the systems that telecommunications service providers sought after. Consequently, during the Year, TSTSH and TSTJX in aggregate entered into contracts worth only approximately HK$18,000,000, with different modules of "Tidestone" CNMS to be deployed at telecommunications service providers in the provinces of Jiangxi, Jiangsu, Shandong, Shaanxi, Hubei, Hebei, Hunan and Sichuan and municipalities of Chongqing and Shanghai. During 2017, in view of the challenges faced by TSTSH and TSTJX and with the restructuring of other entities in the Group in Mainland China to continue, it is the intention of the Group to explore possibility of business collaboration among the entities in Mainland China.

Other Investments Holdings

TTSA Intense competition as a result of competitive tariffs packages initiated by the other two market players continued to have its adverse impact on the operating performance of TTSA. During the Year, TTSA reported an 11.89% drop in revenue from HK$310,165,000 in 2015 to HK$273,285,000 with net loss widened to HK$21,776,000 in 2016 from HK$5,318,000 in the preceding year. As at 31st December 2016, the Group is holding 17.86% of TTSA.

Subsequent to the decision of the Government of Timor-Leste during the second quarter of 2016 not to increase its equity stake in TTSA, Oi proceeded to dispose of its shareholding in TTSA. To the best knowledge of the Group, Oi, together with its acting-in-concert parties, which in aggregate holds approximately 57% interests in TTSA, announced on 13th December 2016 of its intention to sell their shareholding to an independent third party for a consideration of HK$279,154,000. As Oi is under judicial reorganisation, it has to submit the sale to the corporate court in Brazil for prior approval. As at the Latest Practicable Date, Oi is still pending to receive the approval from the corporate court.

Due to uncertainty at TTSA, subject to a revaluation by an independent valuer, there was a downward adjustment to the carrying amount of the investment of TTSA from HK$54,578,000 as at 31st December 2015 to HK$25,084,000 as at 31st December 2016.

Vodacabo Due to uncertain business landscape in Timor-Leste, the shareholders agreed to a management buyout of Vodacabo in 2015 and the Group entered into a sale and purchase agreement in early February 2016 to dispose of its shareholding. Proceeds from the disposal, which approximated HK$1,238,000, was received in July 2016.

GTGIL GTGIL is principally engaged in 1. the trading of electronic parts and components in relation to display modules and touch panel modules, and provision of professional solution with engineering services; and 2. property development and property investment. As a non-core asset of the Group, it has been the intention to gradually dispose of all its shareholdings in GTGIL in the open market. During the Year, the Group has not disposed of any GTGIL Shares as the share performance of GTGIL remained weak. As at 31st December 2016, the Group held 82,395,392 GTGIL Shares or approximately 2.00% of GTGIL.

REVIEW OF OPERATING RESULTS

Turnover and Profitability

Similar to previous years, the Group continued to experience strong business momentum during the last quarter of the Year. Business activities picked up considerably during the last three months of the Year and accounted for 55.18% of the total revenue for the Year. Revenue of HK$451,371,000 was registered during the Year, representing an increase of 28.87% as compared to 2015. The strong last quarter was attributable primarily to the completion of a number of major projects for the Government of Macao, outstanding business growth witnessed by the Hong Kong entity and commencement of works in relation to the surveillance project and data network infrastructure project that the Group secured from a gaming operator at their new footprints in Cotai during late 2015 and early 2016 respectively. Despite sturdy revenue, gross profit of the Group only grew by a mere 5.05% to HK$112,383,000 as compared to HK$106,980,000 in 2015, and its gross profit dropped from 30.54% to 24.90%. During the year, the Group aggressively took on a number of projects with different gaming operators in Macao and telecommunications service providers in Hong Kong with some very competitive pricing strategies as a means to penetrate into these customers. Moreover, the works of the surveillance project and data network infrastructure project for the local gaming operator related primarily to the stage of equipment delivery, which again customarily carried lower margins.

During the Year, the Group incurred loss of HK$1,536,000 from the disposal of fixed income instruments as the bond market endured a challenging time, which completely offset the gain on disposal of Vodacabo in early February 2016 of HK$230,000.

While staff costs (including staff benefits and welfare) remains the biggest element of total cost structure, the Group has continued its effort to control costs. Despite management approved an average 5% salary increment to its staff to align with market expectations and general level of inflation for the Year, and that the Group added new recruits to the Hong Kong team to support the business in Hong Kong and built two work teams to support the major surveillance project and data network infrastructure project, total administrative expenses recorded HK$94,013,000 in 2016, almost levelling that of 2015 at HK$93,974,000. While management will continue to manage costs, incentives will continue to be offered to engineers who complete technical and product trainings and to those who successfully pass and obtain recognised certifications, in particular from manufacturers that the Group represents or relate to project management.

Despite improved business performance, the Group reported a drop in its operating profit from HK$6,018,000 in 2015 to HK$4,368,000 in the Year subsequent to the recognition of share-based payment expenses of HK$3,264,000. In the absence of the share-based payment expenses, the Group would have reported operating profit of HK$7,632,000, which would represent an increase of 26.82% on a year-on-year basis. Likewise, as a result of, among others, the share-based payment expenses, the Group registered net profit of HK$6,306,000 for the Year, which was similar to the level of net profit of HK$6,460,000 in 2015.

Capital Structure and Financial Resources

With an outstanding last quarter for the Year and strong pipelines of projects generated from customers in Macao and Hong Kong, key figures related to level of inventories, receivables and payables and accruals all witnessed significant hikes as at 31st December 2016. Level of inventories more than doubled from HK$13,674,000 in 2015 to HK$27,713,000 in 2016. Trade receivables increased considerably from HK$135,606,000 to HK$224,738,000 on a year-on-year basis while trade and bills payables correspondingly hiked up from HK$47,204,000 to HK$118,522,000, which was in line with the prudent cash management habitually practised at the Group to negotiate extended favourable trade terms with its suppliers.

As at 31st December 2016, AFS financial assets (non-current and current) of HK$50,638,000 comprised primarily the investment of the Group in TTSA of HK$25,084,000, GTGIL Shares of HK$5,109,000 and investments in corporate bonds of HK$18,989,000. A significant drop of HK$45,488,000 was witnessed, with AFS financial assets (non-current and current) decreased from HK$96,126,000 as at 31st December 2015 to HK$50,638,000 as at 31st December 2016. The drop was explained primarily by the HK$29,494,000 downward revaluation of TTSA from HK$54,578,000 in 2015 to HK$25,084,000 in 2016 and the liquidation of bond holdings to accommodate the working capital requirements of the Group. As at 31st December 2016, corporate bonds held by the Group included approximately HK$7,881,000 from a subsidiary of Shangri-La Asia Limited and approximately HK$4,178,000 in UBS Group AG.

The Group continued to exercise capital discipline and maintain a solid balance sheet with no gearing (save for and except normal trade and other payables). Due to the downward adjustment of HK$29,494,000 to the carrying amount of TTSA, despite another year of profitability, equity base of the Group dropped from HK$265,804,000 as at 31st December 2015 to HK$237,781,000 as at 31st December 2016. Restricted cash, cash and cash equivalents and corporate bonds, which totalled HK$108,006,000, remained at a healthy level. Level of cash balances further strengthened as at the Latest Practicable Date as over HK$100,000,000 of trade receivables were settled by customers. Current liquidity position and capital structure continue to weather the Group against unexpected headwinds while provides flexibility to the management to comfortably pursue new business opportunities.

CORPORATE GOVERNANCE

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 consider 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

"AFS"	available-for-sale
"AGM"	annual general meeting
"Board"	the board of Directors
"Brazil"	The Federative Republic of Brazil
"CNMS"	customer network management system
"Code"	the code provision of 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
"Exchange"	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
"FVOCI"	fair value through other comprehensive income
"FVPL"	fair value through profit or loss
"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 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$0.001 each in the share capital of GTGIL
"HK$"	Hong Kong Dollar, the lawful currency of Hong Kong
"HKAS"	Hong Kong Accounting Standard
"HK cent"	Hong Kong Cent, where 100 HK cents equal HK$1
"HKFRS"	financial reporting standards and interpretations issued by HKICPA. They comprise 1. Hong Kong Financial Reporting Standards, 2. HKAS, and 3. Interpretations
"HKICPA"	the Hong Kong Institute of Certified Public Accountants, established under the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong)

"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
"Latest Practicable Date"	20th March 2017, being the latest practicable date prior to the printing of this announcement for ascertaining certain information contained herein
"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
"Oi"	Oi S.A. - in judicial reorganisation, a company incorporated in Brazil with limited liability and whose shares are listed on the New York Stock Exchange in USA and BM&FBOVESPA in Brazil
"Option"	an option to subscribe for Shares pursuant to the share option scheme approved by the Members at the AGM on 22nd June 2012 and for the time subsisting
"PPE"	property, plant and equipment
"PRC"	The People's Republic of China
"Share"	ordinary share of HK$0.10 each in the share capital of the Company (not applicable to GTGIL Share)
"Timor-Leste"	The Democratic Republic of Timor-Leste
"TSTJX"	泰思通軟件(江西)有限公司, incorporated in PRC with limited liability and an indirectly owned subsidiary of the Company
"TSTSH"	泰思通軟件(上海)有限公司, , incorporated in PRC with limited liability and an indirectly owned subsidiary of the Company
"TTSA"	Timor Telecom, S.A., a company incorporation in Timor-Leste with limited liability
"US$"	United States Dollar, the lawful currency of USA
"USA"	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, a company incorporated in Timor-Leste with limited liability and a former indirectly owned associate of the Company
"Year"	the year ended 31st December 2016

By order of the Board
José Manuel dos Santos
Chairman

Macao, 21st March 2017

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*