VODATEL

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

- Although revenue for the Year of HK$439,317,000 represented a minor dip of 2.67% as compared to 2016, improved gross profit margin to 26.00% translated to gross profit of HK$114,239,000 for the Year

- Due to the full impairment of the fair value of TTSA, the Group reported net loss for the Year of HK$5,763,000. In the absence of the impairment loss, the Group would have reported profit before taxation of HK$7,877,000

- Equity base of the Group amounted to HK$214,383,000 with cash and cash equivalents (including value of yield-enhanced financial instruments) standing at HK$115,253,000 as at 31st December 2017

- Although work orders generated from different gaming operators by VHL during 2017 fell short of HK$36,000,000 as compared to 2016, attributable to the Government of Macao, total contracts generated for the Year were HK$205,000,000, which exceeded total contracts received in 2016 by over HK$50,000,000

- With a successful business shift, business generated from the entities in Mainland China grew four times from approximately HK$6,000,000 to over HK$25,000,000

- 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 2017 HK$'000	2016 HK$'000
Revenue	2	**439,317**	451,371
Cost of sales	3	**(325,078)**	(338,988)
Gross profit		**114,239**	112,383
Selling and marketing costs	3	**(12,308)**	(9,583)
Administrative expenses	3	**(95,195)**	(94,013)
Other loss		**(1,119)**	(1,155)
Share-based payment expenses		**—**	(3,264)
Impairment loss of AFS financial assets		**(10,501)**	—
Operating (loss)/profit		**(4,884)**	4,368
Finance income		**2,254**	3,083
Finance costs		**(1)**	(35)
Finance income — net		**2,253**	3,048
Share of net profit/(loss) of an associate accounted for using the equity method		**7**	(3)
(Loss)/profit before income tax		**(2,624)**	7,413
Income tax expense	4	**(3,139)**	(1,107)
(Loss)/profit for the Year		**(5,763)**	6,306
(Loss)/profit is attributable to:			
Owners of the Company		**(4,827)**	8,989
Non-controlling interests		**(936)**	(2,683)
		(5,763)	6,306
(Loss)/earnings per Share attributable to ordinary equity holders of the Company:		**HK Cent**	HK Cents
Basic and diluted (loss)/earnings per Share	5	**(0.79)**	1.46
Dividends (expressed in HK$'000)	6	**6,144**	6,144

Consolidated statement of comprehensive income

	Year ended 31st December	
	2017	2016
	HK$'000	HK$'000
(Loss)/profit for the Year	**(5,763)**	6,306
Other comprehensive expense:		
Items that may be reclassified to profit or loss		
Change in the fair value of AFS financial assets	**(12,661)**	(32,852)
Revaluation transfer to profit or loss	**980**	1,541
Currency translation differences	**2**	(144)
Other comprehensive expense for the Year, net of tax	**(11,679)**	(31,455)
Total comprehensive expense for the Year	**(17,442)**	(25,149)
Total comprehensive expense for the Year is attributable to:		
Owners of the Company	**(16,507)**	(22,442)
Non-controlling interests	**(935)**	(2,707)
	(17,442)	(25,149)

Consolidated balance sheet

	Note	As at 31st December 2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**4,775**	2,646
Interest in an associate		**808**	801
AFS financial assets		**39,029**	39,402
		44,612	42,849
Current assets			
Inventories		**22,822**	27,713
Current income tax recoverable		**—**	4
Trade receivables	7	**184,112**	224,738
Other receivables, deposits and prepayments		**37,131**	26,569
AFS financial assets		**7,141**	11,236
Cash and cash equivalents		**75,342**	64,122
Restricted cash		**—**	24,895
		326,548	379,277
LIABILITIES			
Current liabilities			
Trade and bills payables	8	**82,245**	118,522
Other payables and accruals		**63,815**	57,236
Current income tax liabilities		**10,717**	8,587
		156,777	184,345
Net current assets		**169,771**	194,932
Total assets less current liabilities		**214,383**	237,781

	Note	As at 31st December 2017 HK$'000	2016 HK$'000
Financed by:			
EQUITY			
Share capital		61,570	61,382
Other reserves		144,821	156,501
Retained earnings			
— Proposed final dividend	6	6,144	6,144
— Others		3,927	14,898
Capital and reserves attributable to owners of the Company		216,462	238,925
Non-controlling interests		(2,079)	(1,144)
Total equity		214,383	237,781

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

Notes:

1 **Basis of preparation**

(a) *Compliance with HKFRS*

The consolidated financial statements of the Company were prepared in accordance with HKFRS.

(b) *Historical cost convention*

The consolidated financial statements were prepared on a historical cost basis, except for AFS financial assets - measured at fair value.

(c) *New and amended standards adopted by the Group*

The Group applied the following standards and amendments for the first time for their annual reporting period commencing 1st January 2017:

- *Recognition of Deferred Tax Assets for Unrealised Losses — Amendments to HKAS 12 "Income Taxes", and*

- *Disclosure initiative — amendments to HKAS 7 "Statement of Cash Flows"*.

The Group also elected to adopt the following amendments early.

- *Classification and Measurement of Share-based Payment Transactions — Amendments to HKFRS 2 "Share-based Payment",*

- *Annual Improvements to HKFRS 2014 — 2016 Cycle, and*

- *Transfers of Investment Property — Amendments to HKAS 40 "Investment Property"*.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods and will also not affect the current and future periods.

(d) *New standards and interpretations not yet adopted*

Certain new accounting standards were published that were not mandatory for 31st December 2017 reporting periods and were not early adopted by the Group. The assessment of the impact of these new standards of the Group is set out below.

<u>HKFRS 9, "Financial Instruments"</u>

HKFRS 9 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.

Impact

The Group reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1st January 2018:

The debt instruments of the Group that are currently classified as AFS will 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 AFS for which an FVOCI election is available.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of its financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit and loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. During the Year, HK$1,328,000 of such losses were recognised in profit or loss in relation to the disposal of AFS 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 fair value through profit or loss 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. Based on the assessments undertaken to date, the Group expects a small increase in the loss allowance of trade debtors by approximately 3.33%

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.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1st January 2018. The Group will apply the new rules retrospectively from 1st January 2018, with the practical expedients permitted under the standard. Comparatives for the Year will not be restated.

<u>HKFRS 15</u>

Nature of change

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 and the related literature.

The new standard is based on the principle that revenue is recognised when control of goods or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management is currently assessing the effects of applying the new standard on the financial statements of the Group and has identified that accounting for certain costs incurred in fulfilling a contract will be affected.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1st January 2018. The Group intended to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as at 1st January 2018 and that comparatives will not be restated.

HKFRS 16, "Leases"

Nature of change

HKFRS 16 was issued in January 2016. It 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.

Impact

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$3,621,000. The Group estimated that approximately 32% of these relate to payments for short-term and low value leases which will be recongised on a straight-line basis as an expense in profit or loss.

However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the profit or loss of the Group and classification of cash flows going forward.

Mandatory application date/Date of adoption by the Group

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. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Revenue recognition

Revenue was measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue were net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognised revenue when the amount of revenue could be reliably measured, it was probable that future economic benefits would flow to the entity and 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.

(a) *Project sales*

Timing of recognition: 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.

Measurement of revenue: Revenue was based on the price specified in the contracts. No elements of financing was deemed present as the sales were made with a credit term of thirty to forty-five days, which was consistent with market practice.

(b) *Sales of services*

Timing of recognition: The Group sold maintenance services to the end users. 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.

Measurement of revenue: These services were provided as a fixed-price contract, with contract terms generally ranging from less than one year to three years.

(c) *Sales of software*

Timing of recognition: Revenue from software implementation was recognised when such implementation was accepted by the customer.

Measurement of revenue: Revenue was based on the price specified in the contracts. No elements of financing was deemed present as the sales were made with a credit term of thirty to forty-five days, which was consistent with market practice.

The Group derived the following types of revenue:

	2017	2016
	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	**422,128**	434,531
Customer network management system	**17,189**	16,840
Total revenue	**439,317**	451,371

3 **Expenses by nature**

	2017	2016
	HK$'000	HK$'000
Changes in inventories	**273,019**	295,773
Provision on inventories	**528**	266
(Reversal of)/provision on trade receivables, net	**(474)**	677
Employee benefit expense and Directors' emoluments	**73,042**	60,925

4 **Income tax expense**

	2017	2016
	HK$'000	HK$'000
Current tax		
Current tax on (loss)/profits for the Year		
- Macao complementary profits tax	**3,142**	2,217
- Mainland China corporate income tax	**156**	23
Adjustments in respect of prior years	**(159)**	(1,133)
Income tax expense	**3,139**	1,107

5 **(Loss)/earnings per Share**

(a) *Basic (loss)/earnings per Share*

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 outstanding during the Year.

(b) *(Loss)/earnings used in calculating (loss)/earnings per Share*

	2017	2016
	HK$'000	HK$'000
(Loss)/profit attributable to ordinary equity holders of the Company used in calculating basic (loss)/earnings per Share	**(4,827)**	8,989

(c) *Weighted average number of Shares used as the denominator*

	2017	2016
Weighted average number of Shares used as the denominator in calculating basic (loss)/earnings per Share (thousands)	**614,396**	613,819

(d) *Information concerning the classification of Options*

Options granted to Directors, employees and a consultant under the Scheme were considered to be potential Shares. They would have been included in the determination of diluted (loss)/earnings per Share to the extent to which they were dilutive. Options were not included in the determination of basic (loss)/earnings per Share.

The 51,376,000 Options granted on 26th September 2016 were not included in the calculation of diluted (loss)/earnings per Share because they were antidilutive for the Year. These Options could potentially dilute basic (loss)/earnings per Share in the future.

6 Dividends

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.

(a) *Dividends recognised during the Year*

	2017	2016
	HK$'000	HK$'000
Final dividend for the year ended 31st December 2016 of HK$0.01 (2015 — HK$0.01) per Share	**6,144**	6,138

(b) *Dividends not recognised at the end of the reporting period*

	2017	2016
	HK$'000	HK$'000
The Directors recommend the payment of a final dividend of HK$0.01 (2016 — HK$0.01) per fully paid Share for the Year. The proposed dividend is expected to be paid out of retained earnings as at 31st December 2017, and is not recognised as a liability at year end	**6,144**	6,144

7 **Trade receivables**

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

	2017	2016
	HK$'000	HK$'000
Within three months	**159,920**	177,569
> Three months but ≤ six months	**11,743**	11,006
> Six months but ≤ twelve months	**5,143**	1,337
Over twelve months	**22,418**	49,451
	199,224	239,363
Less: allowance for impairment of trade receivables	**(15,112)**	(14,625)
	184,112	224,738

8 **Trade and bills payables**

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

	2017	2016
	HK$'000	HK$'000
Within three months	**72,278**	103,795
> Three months but ≤ six months	**199**	196
> Six months but ≤ twelve months	**4,371**	6,948
Over twelve months	**5,397**	7,583
	82,245	118,522

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

During the Year, VHL primarily focused on completing two major projects from a gaming operator that it secured in November 2015 and April 2016 respectively. These projects involved the installation and commissioning of a surveillance system and data network infrastructure at a new gaming and hospitality complex in the Cotai Strip, which was successfully opened in February 2018. Similar to many other large scale projects, the successful completion of the projects was not without hurdles, such as challenging site conditions, issues during deployment of a system in a live environment which could not be identified with any production performance testing in a lab environment, and unexpected events such as Typhoon Hato that struck Macao during August 2017. Nevertheless, with strong team effort and undisputable support from respective vendors, the successful deployment represented another strong testimony of VHL as a solid local system integrator with strong and quality project planning, management and execution and with results delivered safely, reliably, on time and within budget.

Capitalising on the continued strong economic growth of Mainland China, gaming revenue continued to gain its momentum during the Year and possibly in 2018. With gaming operators with original single footing in the Macao peninsula successfully expanded their footprints to the Cotai Strip, such as Wynn Palace (opened in 2016), MGM Grand (opened in February 2018) and Lisboa Palace (expected to open in 2019/2020), the Group remained cautious over a resurgence of notable increases in capital expenditures by different gaming operators during the past fifteen years where the products and services carried by the Group are in high demands. While different gaming operators will continue to invest, these incoming infrastructures are expected to gear towards a mixture of gaming and non-gaming, the latter of which is related to more family-friendly projects and entertainment. Acknowledging the potential market shift, the Group reconnoitered within the surveillance dimension to venture into the innovative smart cameras and traffic management of intelligent transportation systems. As these cameras provide full traffic analysis under any meteorological conditions and which could be integrated with different road traffic control applications, the Group successfully won a HK$42,000,000 project from the Transport Bureau where the smart cameras and the associated traffic management system are to be deployed at various road junctions in Macao.

During the Year, business generated from the Government of Macao hit record high with MDL and VHL in combination pulled in over HK$200,000,000 work orders from different bureaus in the areas of servers, storage, security, surveillance and networking and in the provision of customised software solutions and on-going maintenance service support. This encouraging result was again, a reassurance that MDL and VHL continued to be chosen by the Government of Macao as the solution and service providers of choice for IT and surveillance turnkey solutions. In relation to the "premier support services", which involves partnering with vendor to proactively assist the customer to maximise IT resources, ensure health status of information technology operations, provide customised and personal service management and deliver prioritised 24/7 problem resolution support, during the Year, MDL continued to secure contracts from the Government of Macao, banks and local large corporations and with the "premier support services" successfully marketed to universities.

With the strong support from data infrastructure networks vendors, the Group invested considerably in its Hong Kong team during 2016 to extend its business reach from the trading nature of provision of networking equipment to the more project-based nature that involves construction of data networks infrastructure. Subsequent to a year of heavy capital expenditures by the customers of the Group in 2016, total business generated for the Year by the Hong Kong entity retreated back to its norm with approximately HK$45,000,000 worth of contracts secured.

Business in Mainland China

During 2016, the Group made the decision to shy away from the traditional business of provision of maintenance support services to telecommunications service providers over their narrow band data networks to the area of construction of data networks infrastructure. This move was successfully implemented with total contracts signed grew four times from approximately HK$6,000,000 to over HK$25,000,000. The encouraging result was explained not only by the shift of business focus, but the extension of footprints of the team in Mainland China from focusing solely on local telecommunications service providers to regional telecommunications service providers and reputable Chinese enterprises in the sectors of insurance, securities and banking. Customers now covered by the Group span across the provinces of Jiangxi, Shanxi and Hebei, the municipality of Shanghai and the cities of Shenzhen and Guangzhou in Guangdong, and Hangzhou in Zhejiang.

Business generated by TSTSH and TSTJX for the Year was approximately HK$16,000,000 and was secured from telecommunications service providers in the provinces of Guangdong, Jiangxi, Shaanxi, Jiangsu, Shandong, Hebei, Hubei and Guizhou and the municipalities of Chongqing and Shanghai. While the projects in pipelines were promising during the Year, total contracts entered into fell short by approximately HK$2,000,000 as compared to that of 2016 as over HK$10,000,000 worth of tenders were either cancelled or delayed by the respective telecommunications service providers due to insufficient budget.

Other Investment Holdings

TTSA During the third quarter of 2017, to remain competitive and to meet the demand of mobile data subscribers for enhanced connectivity and higher-speed mobile broadband services, TTSA strengthened its utilisation of satellite to roll out new fourth generation wireless (4G)/long term evolution (LTE) network to customers across Timor-Leste. As the effectiveness of this market initiative to improve the operating performance of TTSA has yet to be proven, the operating performance of TTSA suffered another downturn during the Year as revenue dropped from HK$273,285,000 in 2016 to HK$228,239,000 in 2017. Although net loss widened from HK$21,776,000 to HK$98,879,000, TTSA remained positive with its earnings before interest, taxation, depreciation and amortisation, registering HK$93,055,000 for the Year.

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 in the midst of a restructuring process after filing for judicial reorganisation, the offer for disposal will require the prior approval by the business court in Brazil for prior approval. Although the approval for disposal was finally granted in March 2017, the business court ordered an updated valuation of TTSA to be made. To the best knowledge of the Group and as at 19th March 2018, being the latest practicable date prior to the printing of this announcement for ascertaining certain information contained herein, there is no update regarding the status of the revaluation ordered by the business court. The Group will continue to keep close watch of any latest developments.

With uncertainty of TTSA due to sustainable losses incurred for three consecutive years and a possible successful disposal of TTSA by Oi questionable in the near future, subject to a revaluation by an independent valuer and for prudent sake, the carrying cost of the investment of TTSA of HK$25,084,000 as at 31st December 2016 was fully impaired, resulting in an impairment loss of HK$10,501,000 in the books of the Year. Despite the full impairment of the investment cost of TTSA, it was worth noting that over the past years, the Group received approximately HK$117,000,000 of dividends from TTSA, which was more than ten times return on investment.

GTGIL GTGIL was 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 an asset of the Group without a strategic fit, it has been the intention to gradually dispose of all its shareholdings in GTGIL in the open market. Consequently, during the last quarter of the Year, in the general offer for the GTGIL Shares with an offer price of HK$0.0838, the Group surrendered all its shareholdings of 82,395,392 GTGIL Shares. Total cash consideration of HK$6,905,000 was received in December 2017 while a loss on disposal of HK$1,134,000 was recognised during the Year.

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 with 42.50% of the total annual revenue recognised during the last three months of the Year. The strong quarter was mainly attributable to the near completion of the surveillance system and data network infrastructure projects for a gaming operator that it secured in November 2015 and April 2016 and various projects from the Government of Macao that required to be completed before end of the budgetary year. Although revenue for the Year of HK$439,317,000 represented a minor dip of 2.67% as compared to revenue of HK$451,371,000 registered during 2016, due to improved operating performance of the business entities in Mainland China and completion of a number of final acceptance tests by TSTSH and TSTJX, the Group reported a 1.10 percentage points improvement to its gross profit margin to 26.00% or HK$114,239,000 for the Year.

Due to increased marketing activities across different business entities, selling and marketing costs jumped from HK$9,583,000 to HK$12,308,000. Administrative expenses, which includes staff costs (including staff benefits and welfare), also witnessed a hike from HK$94,013,000 to HK$95,195,000 as management of the Group effected an average 4% salary increment to its staff to align with market expectations and general level of inflation and opted for incentives using bonuses versus Options. Higher aggregate expenses, coupled with loss on disposal of GTGIL Shares of HK$1,134,000 and impairment loss of HK$10,501,000, the Group registered operating loss of HK$4,884,000 for the Year. If excluding the impairment loss, the Group would have reported an operating profit of HK$5,617,000 for the Year.

Finance income generated from cash and AFS financial assets was HK$2,254,000, which was HK$829,000 lower than 2016 as considerable amount of cash was deployed during the Year to support the working capital needs of various projects. Adding in finance income and taking into consideration the provision of profit taxes against profit-making entities, the Group registered net loss of HK$5,763,000 for the Year as compared to net profit of HK$6,306,000 for the preceding year.

Capital Structure and Financial Resources

With the surveillance system and data network infrastructure projects for a gaming operator near completion, key figures related to level of inventories, receivables and payables and accruals retreated to much normal levels as at 31st December 2017. Level of inventories of HK$22,822,000 was explained by the equipment that the Group stocked up during December 2017 to meet the delivery schedules of various customers in January 2018. Trade receivables dropped from HK$224,738,000 to HK$184,112,000 on a year-on-year basis while trade and bills payables also showed a corresponding decline from HK$118,522,000 to HK$82,245,000.

As at 31st December 2017, AFS financial assets (non-current and current) of HK$46,170,000 comprised primarily of investments in yield-enhanced financial instruments. Among the bond holdings were HK$4,118,000 from Nippon Life Insurance Company (a mutual company in Japan), HK$3,972,000 from Agile Property Holdings Limited (a company incorporated in the Cayman Islands with limited liability and whose ordinary shares of HK$0.0001 each are listed on the Main Board) and HK$3,950,000 from a subsidiary of CK Hutchison Holdings Limited (a company incorporated in the Cayman Islands with limited liability and whose ordinary shares of HK$1 each are listed on the Main Board).

The Group continued to exercise capital discipline and maintain a solid balance sheet with no gearing (save and except for normal trade and other payables). Due to the write-off of the carrying costs of TTSA of HK$25,084,000, thus effecting a loss-making year, equity base of the Group dropped from HK$237,781,000 as at 31st December 2016 to HK$214,383,000 as at 31st December 2017. Cash and cash equivalents and yield-enhanced financial instruments, which included the cash from the liquidation of GTGIL Shares, totaled HK$115,253,000 and remained at a healthy level. 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; and

4 the management do not provide all Directors with monthly updates.

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.

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.

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet and the related notes of the Company thereto for the Year as set out in this announcement have been agreed by the Auditor, to the amounts set out in the audited consolidated financial statements of the Company for the Year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by HKICPA and consequently no assurance has been expressed by the Auditor in this announcement.

DEFINITIONS

"Auditor"	PricewaterhouseCoopers, the auditor of the Company
"AFS"	available-for-sale
"AGM"	annual general meeting
"Board"	the board of Directors
"Brazil"	The Federative Republic of Brazil
"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
"GEM"	GEM operated by the Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM made by the Exchange from time to time
"Group" or "Vodatel"	the Company and its subsidiaries (not applicable to Gold Tat Group International Limited)

"GTGIL"	Gold Tat Group International Limited (now known as Zhuoxin International Holdings 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, the Hong Kong Institute of Certified Public Accountants Hong Kong Standard on Assurance Engagements, Hong Kong Standard on Auditing, Hong Kong Standard on Review Engagements, and The Stock Exchange of Hong Kong Limited
"Macao"	the Macao Special Administrative Region of PRC
"Main Board"	the stock market operated by the Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Exchange in parallel with GEM. For the avoidance of doubt the Main Board excludes GEM
"Mainland China"	PRC, other than the regions of Hong Kong, Macao and Taiwan
"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 Scheme
"PRC"	The People's Republic of China
"Scheme"	the share option scheme approved by the Members at the AGM on 22nd June 2012
"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 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
"Year"	the year ended 31st December 2017

By order of the Board
José Manuel dos Santos
Chairman

Hong Kong, 20th March 2018

Executive Directors
José Manuel dos Santos
Kuan Kin Man
Monica Maria Nunes

Independent non-executive Directors
Fung Kee Yue Roger
Wong Tsu Au Patrick
Tou Kam Fai

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

* *for identification purpose only*