VODATEL

(Stock code: 8033)

2017 ANNUAL REPORT

Celebrating 25 Years in Business

Characteristics of GEM

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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Corporate Information

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

Independent Non-executive Directors
Fung Kee Yue Roger
Wong Tsu An Patrick
Tou Kam Fai

Authorised Representatives of the Company
Monica Maria Nunes
Foo Chun Ngai Redford

Company Secretary
Foo Chun Ngai Redford, ACIS, ACMA, ACS, CGMA, FCCA, FCPA

Compliance Officer
Monica Maria Nunes

Audit Committee
Fung Kee Yue Roger
Wong Tsu An Patrick
Tou Kam Fai

Auditor
PricewaterhouseCoopers
Certified Public Accountants
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Website
http://www.vodatelsys.com

Bankers
Banco Nacional Ultramarino, S.A.
Banco Comercial de Macau, S.A.
The Hong Kong and Shanghai Banking Corporation Limited

Share Registrars
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Company Profile

Headquartered in Macao and listed on GEM, the Group embodies the vision of delivering high-quality, cutting-edge and custom-tailored IT infrastructure for its customers. Vodatel, by working in close collaboration with renowned manufacturers, offers technology that improves operational efficiency and optimisation by facilitating the swift and timely flow of data. The Group specialises in the design, implementation, operation and maintenance of turnkey solutions in the areas of IT and surveillance. It also actively promotes its in-house capability of software development.

The Group strives for excellence in its core business, reflected through a track record of stellar growth, solid earnings and consistent cash-flow generation. Having been founded in Macao, it is focused on expanding its presence locally, and into other parts of PRC and the Asia Pacific region. Moreover, with time and experience, the Group has developed a comprehensive set of competencies in IT and surveillance solutions for the public sectors, as well as the telecommunications, gaming and hospitality sectors.

The Group is currently focusing investments on critical technology for future IT industry applications. These will ultimately enhance growth prospects in a set of diverse fields, and cater for an on-going technology revolution, allowing customers to develop more sophisticated and representative data mining capabilities and additional opportunities that are currently not feasible due to infrastructure limitations.

In addition to its main offices in Macao and Hong Kong, the Group has sizeable research facilities in Jiangxi and Shanghai, 24-hour service hubs and several representative offices across PRC.

Chairman's Statement

Dear Members of Vodatel,

Although we continue to run a profitable business, due to the full impairment of the fair value of TTSA, I have to present to you a year of net loss at Vodatel. Riding on our key competitive differentiators - people and products - our revenue for 2017 only fell short by 2.67% as compared to 2016 while we outpaced our gross profit margin of last year by 1.10 percentage points to reach 26.00%. Our bottom-line for the Year was net loss of HK$5,763,000, which if not due to the impairment of TTSA of HK$10,501,000, we would have reported profit before taxation of HK$7,877,000. Since our business remains steady and profitable, and we would like to continue to share the return on our business with our Members, the Board proposes a final dividend of HK$0.01 per Share. 2017 is the fourth consecutive year where we recommend a dividend payout.

Reflections of 2017

Over the past years, Vodatel has made sturdy efforts to establish the reputation among gaming operators that "Vodatel = reliability + quality services". As gaming operators invest in bigger and grander gaming and hospitality facilities, we have been well-positioned and have taken on some of the very challenging landmark projects in Macao. However, with heavy concentration on the gaming sector, we have been asked numerous times "Is Vodatel too reliant on revenue generated from gaming operators?" Understanding that any business reliance can pose potential risk, we have de-risked our reliance on the gaming sector by progressing strategic initiatives through vertical and horizontal diversifications.

Through vertical diversification, we have strategically sculpted our products and services portfolio so that Vodatel will own a strong and diverse products and services mix from different vendors that offers the greatest potential. With a well-rounded portfolio, we have continued to horizontally grow deeper across existing geographies and customers. The achievements of Vodatel during 2017 have been a true testament that we have been on the correct path. Taking VHL as an example, aggregate work orders generated from different gaming operators during 2017 fell short of HK$36,000,000 as compared to 2016, yet total contracts generated for the Year were HK$205,000,000, which exceeded total contracts received in 2016 by over HK$50,000,000. The Government of Macao has been the greatest driver as total contracts secured by VHL grew from HK$31,000,000 in 2016 to HK$115,000,000 in 2017.

Looking into 2018

Every year we face new challenges. Our roadmap is to continue to strengthen our portfolio with industry-leading products and services that will not only meet the current demands of our customers, but do allow Vodatel to capture new high-return opportunities as we advance our customers to the forefront for more efficient deployment of resources and for greater returns. We do not know where and when new challenges will emerge, hence Vodatel will continue to focus on making our people technically stronger and physically more mobile so that we can flexibly refine our business strategies to embrace the changing business environment of our key customers as they shift their investment focus and as they move their geography from domestic to the regions.

The People behind Vodatel

2017 was a special year as Vodatel celabrated our 25th anniversary in business. The solid foundation of Vodatel is without any doubt built on our people. As a company guided by strong ethics, our mission is to become a company most admired for its people, partnership and performance. We will continue to focus on grooming the best people in the business. With a top-notch and reliable team, we can then flawlessly execute our projects in a socially and environmentally responsible manner and to capture developing opportunities that will create long-term growth for Vodatel.

Our Appreciation

On behalf of the Board, I would like to, once again, extend my appreciation to our customers, vendors, business partners and, bankers for backing us up, and to our Members, thank you for investing in Vodatel.

José Manuel dos Santos
Chairman

Hong Kong, 20th March 2018

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 EBITDA, 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. 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 the Latest Practicable Date, 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 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, totalled 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.

Employees' Information

As at 31st December 2017, the Group had 231 employees, of which 91, 12 and 128 employees were based in Mainland China, Hong Kong and Macao respectively.

The remuneration and bonus policies of the Group were basically determined by the performance of individual Directors and employees.

The Company adopted the Scheme whereby certain employees of the Group were granted Options. Details of the Scheme are set out under the section "Options" in the report of the Directors.

The Group also provided various training programmes and product orientation for the marketing and technical employees so as to improve their overall qualifications and to continuously keep them abreast of industry and technological changes.

Capital Commitments and Significant Investments

As at 31st December 2017, the Group had significant investments of which the details are set out in Note 17 to the consolidated financial statements. Save as disclosed, the Group did not have any significant capital commitments and significant investments.

Charges on Group Assets

As at 31st December 2017, the Group did not have any charges on assets of the Group.

Details of Material Acquisitions and Disposals

During the Year, the Group disposed of 82,395,392 GTGIL Shares at a consideration of HK$6,905,000. Save as disclosed, the Group had no material acquisitions or disposals.

Details of Future Plans for Material Investment or Capital Assets

The Directors do not have any future plans for material investments or capital assets.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs cost in HK$, MOP, US$ and RMB. The Group incurred net foreign exchange losses of HK$573,000 during the Year.

Environmental Policies and Performance

The Group is committed to maintaining the highest environmental standards to ensure sustainable development of its business, with compliance of all relevant laws and regulations having significant impact on the Group in relation to its business including health and safety, workplace conditions, employment and the environment.

Compliance with Relevant Laws and Regulations

During the Year, to the best knowledge of the Directors, there was no material breach of or non-compliance with applicable laws and regulations by the Group that had a significant impact on the Group.

Relationships with Stakeholders

The Group, as usual, maintains a good relationship with its customers, suppliers and employees.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

José Manuel DOS SANTOS, aged 70, was first appointed as an executive Director on 13th December 1999. He is the founder of the Group and Chairman of the Company. He has experience of over forty years in the telecommunications industry in the Asia Pacific region. He served in a senior position at Direcção dos Serviços de Correcios e Telecomunicações, the telecommunications authority of the Government of Macao, prior to the founding of Zetronic and subsequently the Group. He is the sole director of ERL and OHHL which are Substantial Shareholders.

KUAN Kin Man, aged 52, was first appointed as an executive Director on 14th December 1999. He is the managing director and general manager of the Group in charge of sales and marketing. In 1985, he joined Zetronic as an engineer and was transferred into marketing later. He joined Vodatel Systems (the assets and liabilities of which were assigned to VHL on 1st July 1998) on 8th July 1992 to assume the role of sales manager and was promoted to general manager in 1994.

Monica Maria NUNES, aged 49, was first appointed as an executive Director on 13th December 1999. She is the managing director and finance director of the Company and the Compliance Officer. She graduated from the University of Calgary, Canada with a Bachelor of Commerce degree and from HKU, PRC with a Master of Social Sciences degree. She joined the Group in 1999 and has over twenty years of accounting and banking experience. She holds a Certified Management Accountant Designation of Certified Management Accountants of Alberta, Canada. She is a member of the Chartered Professional Accountants of Alberta, Canada and is entitled to use the designation Chartered Professional Accountant. She is an associate of CIMA and is entitled to use the description Chartered Management Accountant. She is also entitled to hold and use the designation of CGMA. She is an independent non-executive director of AHL.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FUNG Kee Yue Roger, aged 65, was first appointed as an independent non-executive Director on 30th September 2004. He was the managing director of Mitel Networks Asia Pacific Limited, a wholly-owned subsidiary of Mitel Networks Corporation in Canada. Prior to Mitel, he was the President of Newbridge Networks Asia Pacific Limited. He graduated from the University of Toronto, Canada with a Bachelor of Applied Science degree in industrial engineering. He was a member of Professional Engineers Ontario, Canada. He has more than thirty years of experience in the telecommunications and electronics industry.

WONG Tsu An Patrick, aged 44, was first appointed as an independent non-executive Director on 4th June 2008. He is the founder and CEO of Tenacity International Limited, for which he is responsible for its overall strategic development, management and operations. He is also CEO of Wing Tak Group with a focus towards maritime services and private investments. Prior to founding Tenacity International Limited, he has over ten years of investment experience from USA and Asia, working as a portfolio manager for growth-orientated funds at Trust Company of the West, a multi billion US$ (www.tcw.com) fund management company headquartered in Los Angeles, USA. He is a member of the Young Presidents' Organization and also a certified public accountant in USA (qualified by the State Board of Accountancy of the State of Colorado). He is a member of Zhejiang Province Committee, Chinese People's Political Consultative Conference since January 2013.

TOU Kam Fai, aged 60, was first appointed as an independent non-executive Director on 13th May 2009. He first started his own business in seafood processing and trading in 1992 and has since accumulated over fifteen years of experience in the industry with business dealings in the Asia Pacific region and North America. He also liaises business activities between the Bolivarian Republic of Venezuela and PRC and is an investor in both countries.

SENIOR MANAGEMENT (By alphabetical order)

CHAN Chi Pio, aged 48, is the technical support manager of the Group. He joined the Group in 1992 after having graduated from Huaqiao University, PRC with a Bachelor of Science degree in the same year.

CHEONG Kuan Pat, aged 53, is the general manager of MDL. He graduated from CUM, PRC with a Master of Business Administration degree. He is the Vice President of Computer Chamber of Macau since 2006. He has been working in the IT industry in Macao for over twenty years. He joined MDL in 1993 as the chief of product sales and marketing department.

CHUI Yiu Sui, aged 48, is the assistant general manager of MDL. He graduated from CUM, PRC with a degree of Bachelor of Arts. He joined MDL in 1993 as an assistant software manager and was gradually promoted to managerial positions.

SENIOR MANAGEMENT (By alphabetical order) (Continued)

FOO Chun Ngai Redford, aged 44, is the Company Secretary. He joined the Company in September 2003. He is responsible for company secretarial matters and overall financial and accounting management of the Group. He graduated from HKU, PRC with degrees of Bachelor of Business Administration in Accounting and Finance and Master of Arts. He is a fellow of the Association of Chartered Certified Accountants and HKICPA. He is also an associate of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. He is an associate of CIMA and is entitled to use the description Chartered Management Accountant. He is also entitled to hold and use the designation of CGMA. Before joining the Company, he worked for another company listed on GEM as the company secretary and qualified accountant and for an international renowned accounting firm.

HO Wai Sam Paul, aged 55, is the director of technical services of the Group. He graduated from CUM, PRC with a Master of Business Administration degree. He had worked in Companhia de Telecomunicações de Macau S.A.R.L. for eighteen years and was head of transport networks covering the international and national engineering such as optical fibre, synchronous and plesiochronous digital hierarchy transmission, submarine cable, microwave and satellite earth station. He joined the Group in June 2000.

Gary Robert JOSLIN, aged 52, is a project manager with the Group. He has over thirteen years of experience as a project manager in a number of projects in Macao, Australia, New Zealand and Canada mainly focused on security systems, CCTV and data networks. The projects have successfully delivered outcomes for prisons, local Government facilities and casinos. The most recent project in Macao was as the senior project manager for CCTV successfully delivering two major projects for a major gaming operator in Macao.

KUOK Cheong Ian, aged 70, is the general manager of ZHMSDL in charge of software research and development. He holds a Master Degree in Business Administration from Barrington University, USA. Before joining the Group, he worked for a number of companies including Heng Va Company Limited and Talent Rank Limited as the technical director and general manager respectively.

LIANG Ka Man Gary, aged 52, is the sales director of the Group in Hong Kong. He joined the Group in 2001 as the business development manager for Hong Kong market. He graduated from UM, PRC with degree of Bachelor of Business Administration in 1989. Before joining the Group, he was a product manager in one of the leading Hong Kong IT distribution companies for over five years. He has over ten years of experience in sales and marketing IT solutions in Hong Kong.

LOI Man Keong, aged 47, is the sales manager of MDL. He obtained a degree of Bachelor of Economics from JU, PRC and a degree of Bachelor of Laws from China University of Political Science and Law, PRC. He joined MDL in 1994 as a sales executive and was promoted to sales manager in 2006 responsible for product sales of MDL.

Manouchehr MEHRABI, aged 59, is the senior project management consultant of the Group. He obtained his Bachelor of Computer Science degree from Concordia University, Canada in Montreal and his Master of Science degree in Telecommunications from Queen Mary University of London, the United Kingdom of Great Britain and Northern Ireland. Over the years, he has filled a number of IT positions, including programmer, database administrator, field engineer, system manager, and network consultant. He joined the Group in June 2000.

SENIOR MANAGEMENT (By alphabetical order) (Continued)

MOK Chi Va, aged 52, is the deputy general manager, sales and marketing, Macao of the Group. He has obtained a Diploma in Business Administration jointly organised by UM, PRC and Macau Management Association and a Master of Business Administration - International Business degree from West Coast Institute of Management and Technology, Australia. He first joined the Group on 3rd July 2000 as the business development manager principally in charge of the business of AHL and was appointed as an executive director of AHL on 29th January 2003. He was back to the Group on 1st July 2007. Prior to joining the Group, he worked for Charter Kingdom Limited as operation manager and Tung Tat E&M Engineering Co. Limited as project manager.

NG Ka Leung, aged 48, is the assistant technical dicector of the Group. He graduated from UM, PRC with a Bachelor of Science degree in 1994. He has been with the Group since 1995.

WANG Qing, aged 47, is the regional business manager of the Group. He graduated from Nanjing University of Posts and Telecommunications, PRC with a Bachelor of Science degree in 1992. He joined the Group in 1994. He was an engineer at a telecommunications equipment firm before joining the Group.

WONG Wai Kan, aged 53, is the senior regional business director of the Group in Mainland China. He graduated from JU, PRC with a Bachelor of Science degree. He has been with the Group since 1993. He worked in the fields of purchasing and banking before joining the Group.

WU Wenhua, aged 54, is currently the CEO of TSTSH in charge of overall operations, overseeing the sales and marketing, technical development and management of TSTSH. With a doctoral degree from the University of Waterloo, Canada, he has previously worked for international software development corporations, where he has accumulated over fifteen years of product development experience, in particular, development of network management systems for telecommunications service providers. He has established good connections with different telecommunications service providers in PRC.

Corporate Governance Report

1 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 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 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.

2 Directors' securities transactions

The Company has adopted Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding Directors' securities transactions.

The Company has made specific enquiry of all Directors that they have complied with the required standard of dealings and its code of conduct regarding Directors' securities transactions.

There is no event of non-compliance with the required standard of dealings.

3 Board

The Directors were:

Chairman:	José Manuel dos Santos
Executive Directors:	Kuan Kin Man
	Monica Maria Nunes
Independent non-executive Directors:	Fung Kee Yue Roger
	Wong Tsu An Patrick
	Tou Kam Fai

Four meetings were held during the Year.

3 Board (Continued)

The attendance record of each Director was as follows:

	Board	AGM
José Manuel dos Santos	4/4	Present
Kuan Kin Man	4/4	Present
Monica Maria Nunes	4/4	Present
Fung Kee Yue Roger	4/4	Absent
Wong Tsu An Patrick	4/4	Absent
Tou Kam Fai	4/4	Absent

Matters reserved for the Board are as follows:

(a) Approval of interim and final financial statements.

(b) Approval of the interim dividend and recommendation of the final dividend.

(c) Approval of any significant changes in accounting policies or practices.

(d) Appointment or removal of the Company Secretary.

(e) Remuneration of the Auditor where, as usual, Members have delegated this power to the Board and recommendations for the appointment or removal of Auditor following recommendations of the Audit Committee.

(f) Resolutions and corresponding documentations to be put forward to Members at general meetings.

(g) Approval of all circulars and listing particulars.

(h) Approval of press releases concerning matters decided by the Board.

(i) Board appointments and removals and any special terms and conditions attached to the appointment subject to the recommendations of the Nomination Committee and the Remuneration Committee.

(j) Terms of reference of Chairman, other executive Directors and Chief Executives.

(k) Terms of reference and membership of Board committees.

(l) Approval of the long term objectives and commercial strategies of the Group.

(m) Approval of the annual operating and capital expenditure budgets.

(n) Changes relating to the capital structure or its status of the Group.

(o) Terms and conditions of Directors and senior executives.

(p) Changes to the management and control structure of the Group.

(q) Major capital projects.

(r) Material contracts, either by reason of size or strategy, of the Company or any subsidiary in the ordinary course of business, for example, bank borrowings and acquisition or disposal of property, plant and equipment.

3 Board (Continued)

(s) Contracts of the Company or any subsidiary not in the ordinary course of business, for example, loans and repayments, foreign currency transactions, major acquisitions or disposals.

(t) Major investments.

(u) Risk management strategy.

(v) Treasury policies, including foreign currency exposure.

(w) Review of the overall corporate governance arrangements of the Company.

(x) Major changes to the rules of the Company pension scheme, and changes of trustees and changes in the fund management arrangements.

(y) Major changes to employee share schemes and the allocation of executive Options.

(z) Formulation of policy regarding charitable donations.

(aa) Political donations.

(ab) Approval of the principal professional advisors of the Company.

(ac) Prosecution, defence or settlement of litigation.

(ad) Internal control arrangements.

(ae) Directors' and officers' liability insurance.

Matters not mentioned above will be delegated to the management.

The Company confirmed that it has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and it still considers the independent non-executive Directors to be independent.

There is no financial, business or other material/relevant relationships among the Directors.

José Manuel dos Santos, Kuan Kin Man, Fung Kee Yue Roger, Wong Tsu An Patrick and Tou Kam Fai did not comply with Code A.6.5.

Monica Maria Nunes complied with Code A.6.5 by attending seminars organised by Equal Opportunities Commission, a professional body and an industrial association.

During the Year, the Board determined the policy for the corporate governance of the Company, and duties performed by the Board under Code D.3.1.

4 Chairman and Chief Executives

Chairman:	José Manuel dos Santos
Chief Executives:	Kuan Kin Man
	Monica Maria Nunes

The roles of the Chairman and the Chief Executives are segregated and are not exercised by the same individual.

5 Non-executive Directors

Wong Tsu An Patrick was re-appointed for a two-year term expiring on 3rd June 2018. Fung Kee Yue Roger was re-appointed for a two-year term expiring on 29th September 2018. Tou Kam Fai was re-appointed for a two-year term expiring on 12th May 2019. Each Director's fee is HK$10,000 per month.

6 Remuneration of Directors

The Remuneration Committee is to assist the Board in determining the policy and structure for the remuneration of executive Directors, evaluating the performance of executive Directors, reviewing incentive schemes and Directors' service contracts and fixing the remuneration packages for all Directors and senior management.

The members of the Remuneration Committee during the Year and up to the date of this report are:

Wong Tsu An Patrick	(Chairman) (independent non-executive Director)
José Manuel dos Santos	(executive Director)
Fung Kee Yue Roger	(independent non-executive Director)
Tou Kam Fai	(independent non-executive Director)

One meeting was held during the Year.

The attendance record of each Director was as follows:

José Manuel dos Santos	1/1
Fung Kee Yue Roger	1/1
Wong Tsu An Patrick	1/1
Tou Kam Fai	1/1

During the Year, the Remuneration Committee determined the policy and structure for the remuneration of the Directors; evaluated their performance and recommended the bonuses for the year ended 31st December 2016 and on the salary increment for the Year of all the executive Directors.

7 Nomination of Directors

The purpose of the Nomination Committee is to assist, identify, screen and recommend to the Board appropriate candidates to serve as Directors, to oversee the process for evaluating the performance of the Board and to develop, recommend to the Board and monitor nomination guidelines for the Company.

The members of the Nomination Committee during the Year and up to the date of this report are:

José Manuel dos Santos	(Chairman) (executive Director)
Fung Kee Yue Roger	(independent non-executive Director)
Wong Tsu An Patrick	(independent non-executive Director)
Tou Kam Fai	(independent non-executive Director)

One meeting was held during the Year.

The attendance record of each Director was as follows:

José Manuel dos Santos	1/1
Fung Kee Yue Roger	1/1
Wong Tsu An Patrick	1/1
Tou Kam Fai	1/1

During the Year, the Nomination Committee recommended Monica Maria Nunes and Wong Tsu An Patrick to be reappointed in the AGM.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The composition of the Board (including gender, ethnicity, age, length of service) will be disclosed in the annual report.

8 Auditor's remuneration

Remuneration of audit was HK$1,515,000 for the Year.

9 Audit Committee

The Audit Committee is to assist the Board to deal with the matters concerning the Auditor, to review the financial information of the Company, and to oversee the financial reporting system and internal control procedures of the Company.

The members of the Audit Committee during the Year and up to the date of this report are:

Wong Tsu An Patrick	(Chairman) (independent non-executive Director)
Fung Kee Yue Roger	(independent non-executive Director)
Tou Kam Fai	(independent non-executive Director)

Four meetings were held during the Year. Record of individual attendance was as follows:

Fung Kee Yue Roger	4/4
Wong Tsu An Patrick	4/4
Tou Kam Fai	4/4

During the Year, the Audit Committee reviewed the financial reports for the year ended 31st December 2016, for the six months ended 30th June 2017 and for the quarters ended 31st March 2017 and 30th September 2017. The Audit Committee also reviewed and discussed the report of the Auditor to the Audit Committee for the year ended 31st December 2016 and reviewed the Auditor's statutory audit plan for the Year.

10 Other specific disclosures

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRS and the disclosure requirements of CO, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The objectives of the Auditor are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes its opinion. It reports its opinion solely to the Members, as a body, in accordance with Section 90 of CA 1981 and for no other purpose. It does not assume responsibility towards or accept liability to any other person for the contents of its report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hong Kong Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

11 Members' rights

Members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of CA 1981.

Enquiries in written form may be put to the Board by sending a letter detailing such enquiries to the Company Secretary at Room 713B, 7th Floor, Block B, Sea View Estate, 2-8 Watson Road, North Point, Hong Kong.

Procedures for Members to propose a person for election as a Director are made available on the website of the Company. Members with other proposals could require a special general meeting to be called.

12 Investor relations

There is no changes in the memorandum of association of the Company and the Bye-laws during the Year.

13 Risk management and internal control

The management identified and evaluated the significant risks relevant to the Group based on their experience in the business environment, regular meetings with frontline employees and operational and financial forecasts. The risk management and internal control systems are designed to cope with different areas covering currency, liquidity, fraud and other financial, operational and compliance risks. The Board acknowledges that it is responsible for the risk management and internal control systems and for reviewing their effectiveness. A report was compiled and presented to the Board and the Board conducted a review of the effectiveness of the systems of risk management and internal control of the Group in the Year. The Company considers them effective and adequate, though they are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. If material internal control defects are identified, they will be discussed in the Board meeting for resolution. Inside information is identified by the management and the Board will be notified. It will be kept in strict confidence and only disseminated to employees on a "need-to-know" basis.

13 Risk management and internal control (Continued)

Currently there is no separate internal audit function within the Group. Management are still working with a Hong Kong consultancy to apply for ISO9001 on its business model, while two subsidiaries in Guangzhou, Guangdong already obtained ISO9001 in the year ended 31st December 2016. ISO9001 requires an annual audit on the internal control systems and procedures. An internal audit function will be developed, either in-house or outsourced. Management consider to apply for ISO9001 for subsidiaries in other locations, and internal audits will be implemented afterwards.

On behalf of the Board

José Manuel dos Santos
Chairman

Hong Kong, 20th March 2018

ESG Report

ESG AT VODATEL

Vodatel is a renowned and reliable systems integrator which delivers high quality IT infrastructure and solutions to the public sector and private enterprises in Macao, Hong Kong and Mainland China. With "quality, safety and efficiency" as core principles of our operations and management style, we are committed to building trust with all of our stakeholders, including shareholders, customers, employees, the local community and regulators.

We adhere to vigorous people-oriented principles, under which our employees and subcontractors are our greatest asset. At Vodatel, we are firmly committed to the well-being and development of the people who help us to succeed and the communities in which we operate.

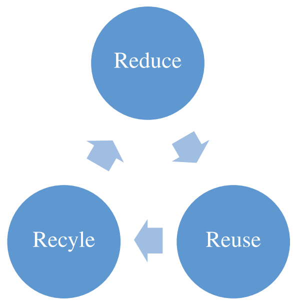
Although this is just the beginning of our ESG journey, we are staunch believers in the environment in which we work and live, and are resolute in our mission to integrate ESG elements in our operations, business strategies and management in order to foster sustainable, long-term growth for the business, our stakeholders and communities.

A) ENVIRONMENTAL

Exchange ESG Guide Aspects	Material Areas
A1 Emissions	Waste Management
A2 Use of Resources	n/a
A3 The Environment and Natural Resources	n/a

Aspect A1: Emissions

Vodatel is conscious of the need to protect the environment. The Group believes that environmental management starts at the source and should be cultivated at all levels in order to nurture positive attitudes on how environmental resources are used and protected. We support the waste hierarchy of "3Rs"– Reduce, Reuse and Recycle – which is aimed at waste control and minimisation.



As a systems integrator, there are a few aspects regarding emissions that routinely apply to our day-to-day business operations:

Air Emission – Vodatel provides vehicles to our engineers in Macao for easy access to construction sites and premises of the customers. Other than adhering to Decree 24/2016 in Macao, where light motor vehicles and heavy motorcycles are subject to annual mandatory inspection after eight years from the date of acceptance of the initial inspection, we regularly inspect our fleet to ensure that any damaged exhaust pipe is immediately repaired or replaced. Though this is not an area of concern as the fleet numbers around ten vehicles, better fleet utilisation through vehicle-sharing is also strongly encouraged.

Waste Management – As a provider of IT equipment, solid waste, such as packaging material, is systematically collected and transported to designated Government-funded disposal facilities. For surplus resources, e.g. end-of-life disposal products, we make every effort to ensure their responsible handling and disposal. Donation of surplus resources to charitable organisations is strongly supported and, where disposal is necessary, Vodatel routinely isolates any recyclable components, e.g. paper and metals, prior to disposal.

Hazardous Waste – Hazardous waste is not an area of concern at Vodatel. Where we are required to handle hazardous waste, it is securely packaged in purpose-built containers, stored safely and marked as "dangerous" before being independently stored and transported to third-party professionals for safe and legal disposal.

Policies applicable at Vodatel

√ **Continually monitor regulatory developments in order to remain compliant at all times;**

√ **Communicate relevant legal requirements or corporate best practices to all affected stakeholders; and**

√ **Practise common sense when it comes to generation of emissions which may be harmful to the environment.**

KPI A1.1	Referring to the types of emissions mentioned above, normal level of NOx is generated from engines in the fleet of vehicles. Other emissions data (if applicable) are disclosed in the KPI below.
KPI A1.2	Greenhouse gas emissions are produced due to consumption of electricity by various offices in different locations. The largest office of the Group, which is in Macao, generates around 80 tonnes of carbon dioxide each year, while the Hong Kong office around 30 tonnes.
KPI A1.3	There is no hazardous waste produced and this KPI is not applicable.
KPI A1.4	Packaging materials weighs approximately 0.7kg to 4kg for each piece of equipment, depending on its size. Such waste weighs less than 30 tonnes each year.
KPI A1.5	Measures to mitigate emissions and results achieved can be referred to in the paragraphs above.
KPI A1.6	How non-hazardous wastes are handled, reduction initiatives and results achieved are mentioned under the paragraph "Waste Management" above. There is no hazardous waste produced.

Aspect A2: Use of Resources

Given that the business of Vodatel involves no production element, as a systems integrator for various IT-related turnkey solutions and services, the use of resources by Vodatel, such as energy, water and other raw materials, in its day-to-day operations is minimal. This aspect is not of great relevance to our cost-structure, which mainly involves purchase of equipment from our suppliers and the associated freight and insurance, salaries and benefits to staff and third-party expenses, e.g. inland transportation and engagement of sub-contractors, incurred during the installation of equipment and commissioning of surveillance and IT solutions. Despite that the use of natural resources is not largely relevant to Vodatel, we are aware of our consumption of electricity, water and fuel within an office environment, and will, therefore, focus our ESG improvement efforts in those areas.

Policies applicable at Vodatel

√ **Instill a culture of resource-usage consciousness;**

√ **Introduction of a framework for assessing resource utilisation, ensuring its optimised application on a systematic basis; and**

√ **Dissemination of any current-term measure/procedures, relating to resource usage to stakeholders.**

KPI A2.1 Details of electricity consumption can be referred to KPI A1.2 above.

KPI A2.2 The Macao office consumes around 4,000 cubic metres of water each year.

KPI A2.3 Staff are reminded to turn off lights and computers when leaving the premises and the level of electricity consumption is considered reasonable.

KPI A2.4 There is no issue in sourcing water that is fit for purpose. The level of water consumption in pantries and toilets is considered reasonable.

KPI A2.5 Details of packaging materials used can be referred to KPI A1.4 above.

Aspect A3: The Environment and Natural Resources

Vodatel specialises in the design and systems integration of IT infrastructure, hence our operations have little impact on the environment or natural resources apart from those mentioned in the previous section. While we do encourage our employees to practise the "3Rs" and to protect the natural environment, as this aspect has no material relevance to our business, we have opted not to report on it, and KPI A3.1 (concerning the significant impacts of activities on the environment and natural recources and the actions taken to manage them) is not applicable.

B) SOCIAL

Our people are our greatest asset and they are essential to continued growth at Vodatel. We staunchly believe that investing in our people and their development is inseparable from the development and ongoing success of our business.

Exchange ESG Guide Aspects	Material Areas
B1 Employment	Attraction and Retention of Talents Working Hours and Rest Periods
B2 Health and Safety	Occupational Health and Safety
B3 Development and Training	Learning and Training
B4 Labour Standards	Human Rights
B5 Supply Chain Management	Assessment of Suppliers
B6 Product Responsibility	Reliable Services and Products
B7 Anti-corruption	Anti-Corruption and Anti-Bribery
B8 Community Investment	Contribution to the Community

Aspect B1: Employment

Vodatel is an equal opportunity employer which believes strongly in the principles of diversification and anti-discrimination. Our human resources policies are in strict compliance with those labour laws issued by the Governments in the different jurisdictions in which we operate, namely Macao, Hong Kong and Mainland China, and other applicable laws and regulations regarding compensation and insurance, employment, promotion and termination of employees. To this end, the employee handbook at Vodatel outlines the benefits and rights enjoyed by all employees.

Attraction and Retention of Talents – With people being our key to success, we offer market-competitive employment packages, consisting of both staff benefits and welfare for all our employees, to ensure that we attract and retain the best people for our business operations. Our comprehensive packages offer discretionary incentives, including bonus scheme, sales commission, Options, medical insurance and retirement protection. We encourage our employees to enjoy a well-balanced work and personal life. In addition to annual leaves, we help our employees to effectively manage their work and life commitments through such policies as marriage and compassionate leave allowances. Promotions are decided within a level-playing field environment and are awarded based on performance and the ability to cohere to teamwork.

Working Hours and Rest Periods – As a systems integrator that provides around-the-clock, top quality support services to our customers, many of our engineers are required to be on standby duty in case of emergency and to work during non-office hours and on public holidays. In addition, we provide overtime pay and additional compensation for those on roster. Any compensation on working hours and rest periods are in full compliance with the relevant local employment ordinances.

Policies applicable at Vodatel

√ **Focus on sustaining employment practices of excellence, from selection to employee satisfaction;**

√ **Preserving a broad approach towards employment standards, beyond legal stipulations; and**

√ **Observing good monitoring and assessment methodologies regarding employment practices.**

Aspect B2: Health and Safety

Vodatel strictly abides by all legal requirements, as well as industry best practices, to ensure a healthy and safe workplace for all its employees, contractors and customers. The status quo is dictated by, and adheres to, the Decree 37/89 in Macao (published on 22nd May, 1989) and also observes occupational health and safety standards under the Labour Department in Hong Kong, coupled with other discretionary policies implemented by Vodatel, covering:

1 Workplace conditions (seat, space, schedule/workload, office supplies, protective equipment, etc.);

2 Workplace tidiness and conservation;

3 Workplace ambience (air quality, luminosity, temperature, noise and vibration);

4 Adequate safety features to prevent risk of injury from fire, explosion and toxic substances;

5 Self-care facilities or conditions (showers, lockers, restrooms, among others);

6 Insurance policy for employees (travel, health, accident-related and others); and

7 Readily accessible first-aid assistance and equipment.

Policies applicable at Vodatel

√ **Assuring good practices for self-controlled workspaces by establishing sound working standards and anticipating, or swiftly resolving, issues;**

√ **Due diligence on the workplace/facilities owned/controlled by clients, contractors, suppliers or any other external entity; and**

√ **Promoting effective data gathering systems for periodic review.**

Aspect B3: Development and Training

The training and development of personnel is of utmost importance to the management at Vodatel. As our business continues to grow, it is crucial that we build a sustainable workforce and continue to develop a team of employees who keep up with emerging technologies and deliver solutions that meet the fast-changing requirements of our customers.

Learning and Training – Our training and development approach focuses on 1. internal and on-the-job training, rotating them to different support teams to broaden their exposure and to build-up their technical skills; and 2. external training in several specific knowledge areas or skill sets, such as technology-related (associated with certain vendor technologies), management techniques, individual worker skills and certification-related courses (Project Management Professional, Certified Public Accountant, etc.).

Policies applicable at Vodatel

- √ **Formulation of a long-term training and development strategy;**
- √ **Elaboration of training and development plans; and**
- √ **Periodic formal review of the training and development programmes.**

Aspect B4: Labour Standards

Vodatel strictly prohibits the employment of minors or engagement of child labour activities.

Human Rights – We will only employ persons who meet minimum age requirements of the regions in which we operate. Child and forced labour are considered criminal acts in all the jurisdictions where Vodatel operates, thus we remain vigilant in this regard, including inspection of all associated partners, to ensure Vodatel is not exposed to any illegal acts or injury. The Group has an active whistleblower policy and encourages individuals to come forward in complete privacy and without penalty to report potential incidents of abuse or illegality. The Group actively educates its workforce to clearly understand, recognise and report acts of corporate malfeasance, such as fiscal improprieties, or perceived criminal activity.

Policies applicable at Vodatel

- √ **Incorporation of guidelines concerning forced and child labour in employment practices;**
- √ **Consistent verification of compliance with the latest legal development; and**
- √ **Whistleblower protection to record any illegal activities.**

Aspect B5: Supply Chain Management

Committed to "quality, safety and efficiency", Vodatel closely monitors and constantly reviews its key procedures in operations, from supplier assessment and procurement to contract execution and safety management. We support collaboration, mutual benefits, standards and integrity throughout our supply chain.

Assessment of Suppliers – Though Vodatel depends on the support of its suppliers, we remain vigilant in our selection of contractors, not only in terms of quality, cost, service and delivery, but also for their corporate commitment to upholding high standards of environmental and social responsible behaviour over 1. legal and regulatory compliance; 2. environmental protection; 3. human rights of workers; 4. occupational health and safety; and 5. prevention of corruption and bribery.

Policies applicable at Vodatel

- √ **Conduction of yearly assessment concerning environmental and social risks over selection of suppliers; and**
- √ **Whistleblower protection to record any illegal activities related to kick-backs.**

Aspect B6: Product Responsibility

The fiduciary nature of Vodatel's concerns over product responsibility revolve mainly around the inspection and selection of responsible and competent suppliers and their products to ensure that we deliver quality and reliable products and services to our customers.

Reliable Services and Products – Providing reliable services and products to our customers is our top priority. We place great importance in applying stringent due diligence on the products and systems that we install for our customers to ensure that, while they meet their intended business requirements, they also adhere to internationally-recognised safety standards, i.e. minimal risk of electrocution, etc.

Policies applicable at Vodatel

- √ **Establishment of formal guidelines concerning product responsibility;**
- √ **Periodic assessment/revision of product responsibility guidelines; and**
- √ **Effecting action/initiatives when deemed necessary.**

Aspect B7: Anti-corruption

Vodatel is committed to conducting our business with honesty and integrity and in compliance with the laws of the countries in which we are active. This includes compliance with all laws, domestic and foreign, prohibiting improper payments or inducements to any person, including public officials.

Anti-Corruption and Anti-Bribery – It is the policy at Vodatel to conduct all business in an honest and ethical manner. At Vodatel, we take a zero-tolerance approach to corruption and bribery and are committed to acting professionally, fairly and with integrity in all our business dealings and relationships. In the normal course of conducting its business, our usual financial framework revolves around the purchasing of equipment for and on behalf of customers under strict contractual terms. These actions are closely monitored to avoid any instances of fraud, misappropriation or favouritism. We also perform regular due diligence when it comes to appointing Board, management, and other personnel at Vodatel to avoid potential conflicts of interest.

Our employees, whether existing or newly hired, are all provided with the relevant policies and guidelines, including any updates or revisions, and are required to attend anti-corruption and anti-bribery training. Where there exists new laws and regulations that may impact our business, all employees will be provided updates with training to ensure compliance.

Vodatel aims to encourage openness and will support anyone who raises genuine concerns in good faith under the anti-corruption and anti-bribery policies of the Group, even if they turn out to be mistaken. Vodatel has adopted a whistleblower policy to strongly encourage individuals to come forward in complete privacy and without penalty.

Policies applicable at Vodatel

√ **Implementation of guidelines on anti-corruption and anti-bribery practices; and**

√ **Whistleblower protection.**

Aspect B8: Community Investment

Vodatel is committed to making a positive impact on our internal and external stakeholders, as well as the communities we interact with through active social or philanthropic investments.

Contributions to the Community – Vodatel is committed to developing positive relationships with the communities in which we operate. In February 2018, we made MOP30,000 to The Macau Association for the Mentally Handicapped to purchase 1,000 small packs of "Fortunate rice" to support those in need. Sharing with those in need, we distributed 700 packs to several elderly homes in Macao, while distributing 300 packs to our employees in Macao and Hong Kong. Going forward, we aim to deepen our understanding of our communities and their needs. We will continue to explore different channels and platforms to contribute meaningfully to the local community.

Policies applicable at Vodatel

√ **Definition of the nature and extent of involvement in the communities where the corporation has operations, or is related to; and**

√ **Periodic assessment of success, regarding philanthropic initiatives.**

Report of the Directors

The Directors submit their report together with the audited financial statements for the Year.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in Note 10 to the financial statements.

An analysis of the performance of the Group for the Year by operating segment is set out in Note 5 to the financial statements.

Business review

The business review is set out on pages 6 to 11 under the section headed "Management Discussion and Analysis".

Results and appropriations

The results of the Group for the Year are set out in the consolidated income statement on page 46.

The Directors recommend the payment of a final dividend of HK$0.01 per Share, totalling HK$6,144,000 (2016: HK$0.01 per Share, totalling HK$6,144,000).

Shares issued in the Year

Details of the Shares issued in the Year are set out in Note 21 to the financial statements.

Distributable reserves

Distributable reserves of the Company as at 31st December 2017, calculated under CA 1981 (as amended), amounted to HK$177,783,000 (2016: HK$177,677,000).

Options granted to Directors and selected employees

Details of the Options granted in last year is set out in Note 24 of the financial statements and "Options" section contained in this report of the Directors.

Five year financial summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 115 of the annual report.

Purchase, sale or redemption of 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.

Options

Options were granted to certain Directors and employees at the invitation of the Directors under the Scheme. The purpose of the Scheme was to reward Participants who have contributed or will contribute to the Group and to encourage Participants to work towards enhancing the value of the Company and the Shares for the benefit of the Company and the Members as a whole.

The Directors may, at their discretion, invite Participants to take up Options at the Subscription Price.

The total number of Shares available for issue under the Scheme as at 31st December 2017 was 61,443,500, representing 10% of the issued share capital of the Company as at 31st December 2017.

Under the Scheme, the maximum number of Shares issued and to be issued upon exercise of the Options granted and to be granted to each Participant (including both exercised and outstanding Options) in any twelve-month period shall not exceed 1% of the Shares in issue for the time being.

An Option may be exercised in accordance with the terms of the Scheme at any time during the period to be determined and notified by the Board to the Grantee at the time of making an Offer which shall not expire later than ten years from the Date of Grant.

Pursuant to the Scheme, the Grantee shall pay HK$1 to the Company as consideration for the grant of Option.

The Subscription Price shall be determined by the Board in its absolute discretion but in any event shall not be less than the higher of 1. the closing price of the Shares as stated in the daily quotations sheets issued by the Exchange on the Date of Grant which must be a Business Day; 2. the average closing price of the Shares as stated in the daily quotations sheets issued by the Exchange for the five Business Days immediately preceding the Date of Grant; and 3. the nominal value of the Shares.

As at the Latest Practicable Date, Options to subscribe for a total of 28,332,000 Shares were still outstanding under the Scheme which represented approximately 4.61% of the issued Shares.

The Scheme was adopted for a period of ten years commencing on 22nd June 2012.

Options (Continued)

Details of the Shares outstanding on which Options were granted as at 31st December 2017 under the Scheme are as follows:

	Number of Options								
	Held as at 1st January 2017	Exercised during the Year (Note)	Cancelled during the Year	Lapsed during the Year	Held as at 31st December 2017	Exercise Price HK$	Grant date	Exercisable from	Exercisable until
Directors									
Kuan Kin Man	960,000	–	–	–	960,000	0.305	27th September 2016	28th September 2016	27th September 2019
Monica Maria Nunes	960,000	–	–	–	960,000	0.305	27th September 2016	28th September 2016	27th September 2019
Fung Kee Yue Roger	400,000	–	–	–	400,000	0.305	27th September 2016	28th September 2016	27th September 2019
Wong Tsu An Patrick	400,000	–	–	–	400,000	0.305	27th September 2016	28th September 2016	27th September 2019
Tou Kam Fai	400,000	–	–	–	400,000	0.305	27th September 2016	28th September 2016	27th September 2019
Director's associate									
Kuan Ieng Cheok	30,000	–	–	–	30,000	0.305	27th September 2016	28th September 2016	27th September 2019
Continuous contract employees	26,718,000	(616,000)	–	(1,428,000)	24,674,000	0.305	27th September 2016	28th September 2016	27th September 2019
Others	21,508,000	–	(21,000,000)	–	508,000	0.305	27th September 2016	28th September 2016	27th September 2019
	51,376,000	(616,000)	(21,000,000)	(1,428,000)	28,332,000				

Note:

The closing price of the Share was HK$0.46 on 20th January 2017, the Business Day immediately before the Options were exercised.

Directors

The Directors during the Year and up to the date of this report were:

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

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

In accordance with Article 87 of the Bye-laws, Tou Kam Fai retires by rotation at the forthcoming AGM and, being eligible, offers himself for re-election. Pursuant to Code A.4.3, any re-appointment of independent non-executive Directors who have served more than nine years shall be subject to a separate resolution to be approved by the Members. Tou Kam Fai will have been an independent non-executive Director for more than nine years at the forthcoming AGM. The Board believes that, despite his length of service, he remains independent as he has not held any executive or management positions in the Group throughout his appointment. He has also demonstrated his ability to provide an independent view to the matters of the Company. Notwithstanding his years of service as an independent non-executive Director, the Board is of the view that he is able to continue to fulfill his role as required and thus recommends him for re-election at the AGM. In this regard, a separate resolution will be put forward at the AGM to re-elect Tou Kam Fai as an independent non-executive Director.

To comply with the Code, José Manuel dos Santos and Kuan Kin Man retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

Wong Tsu An Patrick, Fung Kee Yue Roger and Tou Kam Fai, independent non-executive Directors, were re-appointed for two-year terms expiring on 3rd June 2018, 29th September 2018 and 12th May 2019 respectively.

Directors' service contracts

None of the Directors who are proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' material interests in transactions, arrangements and contracts that were significant in relation to the business of the Company

Details of José Manuel dos Santos's interests in contracts of significance in relation to the business of the Group are set out in Note 30 to the financial statements.

Save for contracts amongst Group companies and the aforementioned transactions, no other transactions, arrangements and contracts of significance to which the subsidiaries of the Company was a party and in which a Director and his connected party had a material interest, whether directly or indirectly, subsisted as at 31st December 2017 or at any time during the Year.

Biographical details of Directors and senior management

Brief biographical details of Directors and senior management (including the professional qualifications of the Company Secretary and the Compliance Officer) are set out on pages 12 to 15.

Directors' and Chief Executives' interests and/or short positions in the Shares, underlying Shares and debentures of the Company or any Associated Corporation

As at 31st December 2017, the relevant interests and short positions of the Directors or Chief Executives in the Shares, underlying Shares and debentures of the Company or its Associated Corporations which will be required to be notified to the Company and the Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which they took or deemed to have taken under such provisions of SFO) or required pursuant to Section 352 of SFO, to be entered in the register referred to therein or required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Exchange were as follows:

Aggregate long positions in the Shares

Name of Director	Nature of interest	Number of Shares held	Number of underlying Shares (in respect of Options held)	Approximate % of the issued share capital of the Company
José Manuel dos Santos	Corporate (Note 1)	357,945,500	—	58.26
Kuan Kin Man	Personal (Note 2)	22,112,500	960,000	3.76
Monica Maria Nunes	Personal (Note 3)	2,452,500	960,000	0.56
Fung Kee Yue Roger	Personal (Note 4)	210,000	400,000	0.10
Wong Tsu An Patrick	Personal (Note 5)	—	400,000	0.07
Tou Kam Fai	Personal (Note 6)	—	400,000	0.07

Notes:

1 As at 31st December 2017, these Shares were held in the names of BEL, BSPL and ERL. The entire issued share capital in BEL and BSPL were held by José Manuel dos Santos. The entire issued share capital in ERL was held by OHHL, a company wholly-owned by José Manuel dos Santos.

2 The personal interest of Kuan Kin Man comprised 22,112,500 Shares and 960,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Kuan Kin Man as beneficial owner.

3 The personal interest of Monica Maria Nunes comprised 2,452,500 Shares and 960,000 underlying Shares in respect of Options granted to her by the Company. The aforesaid interest was held by Monica Maria Nunes as beneficial owner.

4 The personal interest of Fung Kee Yue Roger comprised 210,000 Shares and 400,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Fung Kee Yue Roger as beneficial owner.

5 The personal interest of Wong Tsu An Patrick comprised 400,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Wong Tsu An Patrick as beneficial owner.

6 The personal interest of Tou Kam Fai comprised 400,000 underlying Shares in respect of Options granted to him by the Company. The aforesaid interest was held by Tou Kam Fai as beneficial owner.

Substantial Shareholders' interests and/or short positions in the Shares and underlying Shares

The register of Substantial Shareholders required to be kept under Section 336 of Part XV of SFO showed that as at 31st December 2017, the Company was notified of the following Substantial Shareholders' interests, being 5% or more of the issued share capital of the Company. These interests were in addition to those disclosed above in respect of the Directors and Chief Executives:

Aggregate long positions in the Shares

Name	Nature of interest	Number of Shares held	Approximate % of the issued share capital of the Company
ERL	Corporate (Note 1)	301,538,000	49.08
OHHL	Corporate (Note 1)	301,538,000	49.08
Lei Hon Kin	Family (Note 2)	357,945,500	58.26

Notes:

1 As at 31st December 2017, these Shares were held in the name of ERL. The entire issued share capital in ERL was held by OHHL, a company wholly-owned by José Manuel dos Santos.

2 Lei Hon Kin, the spouse of José Manuel dos Santos, was deemed to be interested in all the interests of José Manuel dos Santos.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year.

Major suppliers and customers

The percentages of purchases and sales for the Year attributable to the major suppliers and customers of the Group were as follows:

Purchases	
– the largest supplier	27.06 %
– five largest suppliers in aggregate	63.86 %
Sales	
– the largest customer	24.05 %
– five largest customers in aggregate	61.43 %

None of the Directors, their Close Associates or any Member (which to the knowledge of the Directors owned more than 5% of the share capital of the Company) had an interest in these major suppliers or customers.

Connected transactions

A summary of the related party transactions entered into by the Group during the Year is contained in Note 30 to the consolidated accounts. Certain related party transactions also constituted connected transactions, but are exempted from Members' approval, annual review and all disclosure requirements under Chapter 20 of the GEM Listing Rules.

Sufficiency of public float

Based on the information that was publicly available to the Company and within the knowledge of the Directors, it was confirmed that there is sufficient public float of at least 25% of the issued Shares as at the Latest Practicable Date.

Corporate governance report

The corporate governance report is set out on pages 16 to 23.

Permitted indemnity provisions

During the Year and as at 20th March 2018, a permitted indemnity provision is in force for the benefit of all the Directors.

Auditor

The financial statements were audited by PricewaterhouseCoopers who retires and, being eligible, offers itself for re-appointment.

On behalf of the Board

José Manuel dos Santos
Chairman

Hong Kong, 20th March 2018

Independent Auditor's Report

pwc 羅兵咸永道

To the Shareholders of Vodatel Networks Holdings Limited
(incorporated in Bermuda with limited liability)

Opinion

What we have audited

The consolidated financial statements of Vodatel Networks Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 46 to 114, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Fair value measurement of investments in TTSA classified as available-for-sale financial assets
- Provision for impairment of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
1. Fair value measurement of investments in TTSA classified as available-for-sale financial assets Refer to note 2(i) (summary of significant accounting policies), note 3(c) (financial risk management) and note 17. As at 31 December 2017, the equity interests in TTSA with carrying amount of HK$25.1 million was fully impaired and an impairment loss of HK$10.5 million was charged to the consolidated income statement. The investment was recognised as available-for-sale financial assets and classified as level three in the fair value hierarchy. The Group engaged an external valuer to perform the valuation of TTSA as at 31 December 2017 by using discounted cash flow method with revenue growth rate, discount rate, discount for lack of marketability and discount for lack of control as key assumptions. The valuation of TTSA is therefore based on unobservable inputs and requires a high degree of judgement.	We assessed the competence, capabilities and objectivity of the external valuer. We read the valuation report, discussed with the external valuer its scope, and assessed the appropriateness of the valuation method used in determining the fair value. We assessed the reasonableness of the key assumptions used by the external valuer by comparing against relevant market data and industry research. We also involved our internal valuation specialist to assist us in assessing the methodology and the key assumptions used in the discounted cash flow calculation. Based on the procedures performed, we found the assumptions and judgements applied in the valuation to be supportable by available evidence.

Key Audit Matters (Continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
2. Provision for impairment of trade receivables Refer to note 4(a)(ii) (critical estimates and judgements) and note 18. As at 31 December 2017, the Group had gross trade receivables amounting to HK$199.2 million and impairment provisions amounting to HK$15.1 million. A reversal of provision of HK$0.5 million was made to the consolidated income statement for the year ended 31 December 2017. The net trade receivables represented approximately 50% of the total assets. Management needs to exercise significant judgement in assessing the recoverability of the trade receivables. In making such assessment, management needs to consider the current creditworthiness and the past collection history of each customer in developing its expectation of the ultimate realisation of the receivables. The assessment was an area of focus for us given the inherent uncertainties in this area and the significance of the related balance.	We checked, on a sample basis, the accuracy of aging profile of the trade receivables balances. We performed analytics on aging profile of trade receivables, and by making reference to settlement received towards and after the year end, if any, to identify aged debts in respect of which there has been little or no recent or subsequent settlement. We challenged management as to the recoverability of trade receivables which were past due but not impaired, corroborating explanations through examining underlying relevant supporting documents such as post year end settlements, historical payment record, financial position information of the customers and other corresponding documents. Based on the procedures performed, we found the assumptions and judgement made by management in respect of the provision for impairment of trade receivables to be supportable by available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kong Ling Yin Raymond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2018

Consolidated Income Statement

	Notes	Year ended 31st December 2017 HK$'000	2016 HK$'000
Revenue	5	**439,317**	451,371
Cost of sales	7	**(325,078)**	(338,988)
Gross profit		**114,239**	112,383
Selling and marketing costs	7	**(12,308)**	(9,583)
Administrative expenses	7	**(95,195)**	(94,013)
Other loss	6	**(1,119)**	(1,155)
Share-based payment expenses	24	**—**	(3,264)
Impairment loss of AFS financial assets	17(b)	**(10,501)**	—
Operating (loss)/profit		**(4,884)**	4,368
Finance income		**2,254**	3,083
Finance costs		**(1)**	(35)
Finance income – net	9	**2,253**	3,048
Share of net profit/(loss) of an associate accounted for using the equity method	11	**7**	(3)
(Loss)/profit before income tax		**(2,624)**	7,413
Income tax expense	12	**(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	13	**(0.79)**	1.46

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income

	Notes	Year ended 31st December 2017 HK$'000	2016 HK$'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	22	**(12,661)**	(32,852)
Revaluation transfer to profit or loss	22	**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)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

	Notes	As at 31st December 2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**4,775**	2,646
Interest in an associate	11	**808**	801
AFS financial assets	17	**39,029**	39,402
		44,612	42,849
Current assets			
Inventories	19	**22,822**	27,713
Current income tax recoverable		**—**	4
Trade receivables	18	**184,112**	224,738
Other receivables, deposits and prepayments	18	**37,131**	26,569
AFS financial assets	17	**7,141**	11,236
Cash and cash equivalents	16, 20	**75,342**	64,122
Restricted cash	16, 20	**—**	24,895
		326,548	379,277
LIABILITIES			
Current liabilities			
Trade and bills payables	25	**82,245**	118,522
Other payables and accruals	25	**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

		As at 31st December	
	Notes	**2017** **HK$'000**	2016 HK$'000
Financed by:			
EQUITY			
Share capital	21	**61,570**	61,382
Other reserves	22	**144,821**	156,501
Retained earnings			
– Proposed final dividend	27	**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 financial statements on pages 46 to 114 were approved by the Board on 20th March 2018 and were signed on its behalf.

José Manuel dos Santos **Monica Maria Nunes**

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

		Attributable to owners of the Company					
	Notes	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance as at 1st January 2016		**61,382**	**184,668**	**18,191**	**264,241**	**1,563**	**265,804**
Profit/(loss) for the year ended 31st December 2016		—	—	8,989	8,989	(2,683)	6,306
Other comprehensive expense	22	—	(31,431)	—	(31,431)	(24)	(31,455)
Total comprehensive expense for the year ended 31st December 2016		**—**	**(31,431)**	**8,989**	**(22,442)**	**(2,707)**	**(25,149)**
Transactions with owners in their capacity as owners:							
Dividend paid		—	—	(6,138)	(6,138)	—	(6,138)
Scheme - value of services		—	3,264	—	3,264	—	3,264
		—	**3,264**	**(6,138)**	**(2,874)**	**—**	**(2,874)**
Balance as at 31st December 2016		**61,382**	**156,501**	**21,042**	**238,925**	**(1,144)**	**237,781**
Loss for the Year		—	—	(4,827)	(4,827)	(936)	(5,763)
Other comprehensive expense	22	—	(11,680)	—	(11,680)	1	(11,679)
Total comprehensive expense for the Year		**—**	**(11,680)**	**(4,827)**	**(16,507)**	**(935)**	**(17,442)**
Transactions with owners in their capacity as owners:							
Dividend paid		—	—	(6,144)	(6,144)	—	(6,144)
Issue of Shares under Scheme		188	—	—	188	—	188
		188	—	(6,144)	(5,956)	—	(5,956)
Balance as at 31st December 2017		**61,570**	**144,821**	**10,071**	**216,462**	**(2,079)**	**214,383**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

	Notes	Year ended 31st December 2017 HK$'000	 2016 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	28	**12,928**	(19,730)
Interest paid		**(1)**	(35)
Income taxes paid		**(1,471)**	(2,913)
Net cash inflow/(outflow) from operating activities		**11,456**	(22,678)
Cash flows from investing activities			
Payments for property, plant and equipment	14	**(3,659)**	(1,737)
Payments for AFS financial assets		**(43,993)**	(49,553)
Proceeds from sale of property, plant and equipment		**15**	366
Proceeds from sale of AFS financial assets		**25,299**	62,189
Proceeds from sale of an associate		**—**	1,238
Dividends		**—**	28
Interest received on AFS financial assets	9	**2,254**	3,083
Net cash (outflow)/inflow from investing activities		**(20,084)**	15,614
Cash flows from financing activities			
Proceeds from issue of Shares		**188**	—
Decrease in restricted bank deposits		**24,895**	1,152
Dividend paid to Members		**(6,144)**	(6,138)
Net cash inflow/(outflow) from financing activities		**18,939**	(4,986)
Net increase/(decrease) in cash and cash equivalents		**10,311**	(12,050)
Cash and cash equivalents at the beginning of the Year		**64,122**	77,495
Effects of exchange rate changes on cash and cash equivalents		**909**	(1,323)
Cash and cash equivalents at end of Year		**75,342**	64,122

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

1 General information

The Group embodies the vision of delivering high-quality, cutting-edge and custom-tailored IT infrastructure for its customers. The Group, by working in close collaboration with renowned manufacturers, offers technology that improves operational efficiency and optimisation by facilitating the swift and timely flow of data. The Group specialises in the design, implementation, operation and maintenance of turnkey solutions in the areas of IT and surveillance. It also actively promotes its in-house capability of software development.

The Group strives for excellence in its core business, reflected through a track record of stellar growth, solid earnings and consistent cash-flow generation. Having been founded in Macao, it focuses on expanding its presence locally, and into other parts of PRC and the Asia Pacific region. Moreover, with time and experience, the Group has developed a comprehensive set of competencies in IT and surveillance solutions for the public sectors, as well as the telecommunications, gaming and hospitality sectors.

The Group is currently focusing investments on critical technology for future IT industry applications. These will ultimately enhance growth prospects in a set of diverse fields, and cater for an on-going technology revolution, allowing customers to develop more sophisticated and representative data mining capabilities and additional opportunities that are currently not feasible due to infrastructure limitations.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

The Company has its listing on GEM.

These financial statements are presented in thousands of units of HK$ (HK$'000), unless otherwise stated.

2 Summary of significant accounting policies

This note provides a list of significant accounting policies adopted in the preparation of these consolidated financial statements. These policies were consistently applied to all the years presented, unless otherwise stated. The financial statements were for the Group.

(a) Basis of preparation

(i) Compliance with HKFRS

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

(ii) Historical cost convention

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

(iii) 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.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iv) 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.

HKFRS 9, "Financial Instruments"

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.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iv) New standards and interpretations not yet adopted (Continued)

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

Impact (Continued)

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.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iv) New standards and interpretations not yet adopted (Continued)

HKFRS 15

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.

2 Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

(iv) New standards and interpretations not yet adopted (Continued)

HKFRS 16, "Leases" *(Continued)*

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 Summary of significant accounting policies (Continued)

(b) Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries were all entities (including structured entities) over which the Company directly or indirectly had control. The Company directly or indirectly controlled an entity when the Company was directly or indirectly exposed to, or had rights to, variable returns from its involvement with the entity and had the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries were fully consolidated from the date on which control was transferred to the Company directly or indirectly. They were deconsolidated from the date that control ceased.

The acquisition method of accounting was used to account for business combinations by the Group (refer to Note 2(c)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies were eliminated. Unrealised losses were also eliminated unless the transaction provided evidence of an impairment of the transferred asset. Accounting policies of the subsidiaries were changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries were shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates

Associates were all entities over which the Group had significant influence but not control or joint control. This was generally the case where the Group held between 20% and 50% of the voting rights. Investments in associates were accounted for using the equity method of accounting (see (iii) below), after initially being recognised at cost.

2 Summary of significant accounting policies (Continued)

(b) Principles of consolidation and equity accounting (Continued)

(iii) Equity accounting

Under the equity method of accounting, the investments were initially recognised at cost and adjusted thereafter to recognise the share of the post-acquisition profits or losses of the investee of the Group in profit or loss, and the share of movements in OCI of the investee of the Group in OCI. Dividends received or receivable from associates were recognised as a reduction in the carrying amount of the investment.

When the share of losses of the Group in an equity-accounted investment equalled or exceeded its interest in the entity, including any other unsecured receivables, the Group did not recognise further losses, unless it had incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates were eliminated to the extent of the interest of the Group in these entities. Unrealised losses were also eliminated unless the transaction provided evidence of an impairment of the asset transferred. Accounting policies of equity-accounted investees were changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments was tested for impairment in accordance with the policy described in Note 2(h).

(c) Business combinations

The acquisition method of accounting was used to account for all business combinations, regardless of whether equity instruments or other assets were acquired. The consideration transferred for the acquisition of a subsidiary comprised the

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognised any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the share of the non-controlling interest of the net identifiable assets of the acquired entity.

2 Summary of significant accounting policies (Continued)

(d) Separate financial statements

Investments in subsidiaries were accounted for at cost less impairment. Cost included direct attributable costs of investment. The results of subsidiaries were accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries was required upon receiving a dividend from these investments if the dividend exceeded the total comprehensive income of the subsidiary in the period the dividend was declared or if the carrying amount of the investment in the separate financial statements exceeded the carrying amount in the consolidated financial statements of the net assets of the investee including goodwill.

(e) Segment reporting

Operating segments were reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker, who assessed the financial performance and position of the Group and made strategic decisions, was identified as the executive Directors.

(f) Foreign currency translation

(i) Functional Currency and presentation currency

Items included in the financial statements of each of the entities of the Group were measured using the Functional Currency. The consolidated financial statements were presented in HK$, which was the Functional Currency and presentation currency of the Company.

(ii) Transactions and balances

Foreign currency transactions were translated into the Functional Currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates were generally recognised in profit or loss.

All foreign exchange gains and losses were presented in the income statement on a net basis within administrative expenses.

Non-monetary items that were measured at fair value in a foreign currency were translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carred at fair value were reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets such as equities classified as AFS financial assets were recognised in OCI.

2 Summary of significant accounting policies (Continued)

(f) Foreign currency translation (Continued)

(iii) Group companies

The results and financial position of non-Hong Kong operations (none of which had the currency of a hyperinflationary economy) that had a Functional Currency different from the presentation currency were translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented were translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of profit or loss and statement of comprehensive income were translated at average exchange rates (unless this was not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses were translated at the rate on the dates of the transactions); and
- all resulting currency translation differences were recognised in OCI.

(g) Property, plant and equipment

Property, plant and equipment were stated at historical cost less depreciation. Historical cost included expenditure that was directly attributable to the acquisition of the items.

Subsequent costs were included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it was probable that future economic benefits associated with the item would flow to the Group and the cost of the item could be measured reliably. The carrying amount of any component accounted for as a separate asset was derecognised when replaced. All other repairs and maintenance were charged to profit or loss during the reporting period in which they were incurred.

Depreciation was calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements, the shorter lease term as follows:

– Motor vehicles	Five years
– Furniture, fixtures and office equipment	Two to five years
– Demonstration equipment	Three years
– Leasehold improvements	Five years or over the lease terms, whichever is shorter

The residual values and useful lives of the assets were reviewed, and adjusted if appropriate, at the end of each reporting period.

The carrying amount of an asset was written down immediately to its recoverable amount if the carrying amount of the asset was greater than its estimated recoverable amount (Note 2(h)).

Gains and losses on disposals were determined by comparing proceeds with carrying amount. These were included in profit or loss.

2 Summary of significant accounting policies (Continued)

(h) Impairment of non-financial assets

Assets were tested for impairment whenever events or changes in circumstances indicated that the carrying amount might not be recoverable. An impairment loss was recognised for the amount by which the carrying amount of the asset exceeded its recoverable amount. The recoverable amount was the higher of the fair value of an asset less costs of disposal and value in use. For the purposes of assessing impairment, assets were grouped at the lowest levels for which there were separately identifiable cash inflows which were largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment were reviewed for possible reversal of the impairment at the end of each reporting period.

(i) Investments and other financial assets

(i) Classification

The Group classified its financial assets in the following categories:

- loans and receivables, and
- AFS financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition. See Note 15 for details about each type of financial asset.

(I) Loans and receivables

Loans and receivables were non-derivative financial assets with fixed or determinable payments that were not quoted in an active market. If collection of the amounts was expected in one year or less they were classified as current assets. If not, they were presented as non-current assets. The loans and receivables of the Group comprised trade receivables, other receivables and deposits, cash and cash equivalents and restricted cash.

(II) AFS financial assets

Investments were designated as AFS financial assets if they did not have fixed maturities and fixed or determinable payments, and management intended to hold them for the medium to long-term. Financial assets that were not classified into any of the other categories (at loans and receivables) were also included in the AFS category.

The financial assets were presented as non-current assets unless they would mature, or management intended to dispose of them within twelve months of the end of the reporting period.

2 Summary of significant accounting policies (Continued)

(i) Investments and other financial assets (Continued)

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets were recognised on trade-date, the date on which the Group committed to purchase or sell the asset. Financial assets were derecognised when the rights to receive cash flows from the financial assets expired or were transferred and the Group transferred substantially all the risks and rewards of ownership.

When securities classified as AFS were sold, the accumulated fair value adjustments recognised in OCI were reclassified to profit or loss as gains and losses from investment securities.

(iii) Measurement

At initial recognition, the Group measured a financial asset at its fair value plus transaction costs that were directly attributable to the acquisition of the financial asset.

Loans and receivables were subsequently carried at amortised cost using the effective interest method.

AFS financial assets were subsequently carried at fair value. Gains or losses arising from changes in the fair value for monetary and non-monetary securities classified as AFS were recognised in OCI.

Interest on AFS securities calculated using the effective interest method was recognised in the income statement as part of finance income.

Details on how the fair value of financial instruments was determined are disclosed in Note 3(c).

(j) Offsetting financial instruments

Financial assets and liabilities were offset and the net amount reported in the balance sheet when the Company currently had a legally enforceable right to offset the recognised amounts, and there was an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2 Summary of significant accounting policies (Continued)

(k) Impairment of financial assets

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. In the case of equity investments classified as AFS, a siginificant or prolonged decline in the fair value of the security below its cost was considered an indicator that the assets were impaired.

(i) Assets carried at amortised cost

For loans and receivables, the amount of the loss was measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows (excluding future credit losses that were not incurred) discounted at the original effective interest rate of the financial asset. The carrying amount of the asset was reduced and the amount of the loss was recognised in profit or loss. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was the current effective interest rate determined under the contract. As a practical expedient, the Group might measure impairment on the basis of the fair value of an instrument using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could be related objectively to an event occurring after the impairment was recognised (such as an improvement in the credit rating of the debtor), the reversal of the previously recognised impairment loss was recognised in profit or loss.

Impairment testing of trade receivables is described in Note 18(c).

(ii) Assets classified as AFS

If there was objective evidence of impairment for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – was removed from equity and recognised in profit or loss.

Impairment loss on equity instruments that were recognised in profit or loss were not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as AFS increased in a subsequent period and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss.

2 Summary of significant accounting policies (Continued)

(l) Inventories

Inventories were stated at the lower of cost and net realisable value. Costs were assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory were determined after deducting rebates and discounts. Net realisable value was the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Trade and other receivables

Trade receivables were amounts due from customers for goods sold or services performed in the ordinary course of business. Trade and other receivables were generally due for settlement within thirty to forty-five days and therefore were all classified as current.

Trade and other receivables were recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2(i)*(i)*(l) for further information about the accounting of the Group for trade receivables and Note 2(k)*(i)* for a description of the impairment policies of the Group.

(n) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents included cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that were readily convertible to known amounts of cash which were subject to an insignificant risk of changes in value, and bank overdrafts.

(o) Share capital

Shares were classified as equity (Note 21).

(p) Trade and other payables

These amounts represented liabilities for goods and services provided to the Group prior to the end of financial year which were unpaid. The amounts were unsecured and were usually paid within thirty to sixty days of recognition. Trade and other payables were presented as current liabilities unless payment was not due within twelve months after the reporting period. They were recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(q) Borrowing costs

Borrowing costs were expensed in the period in which they were incurred.

2 Summary of significant accounting policies (Continued)

(r) Current and deferred income tax

The income tax expense or credit for the period was the tax payable on the taxable income of the current period based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(i) Current income tax

The current income tax charge was calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the regions where the subsidiaries and associates of the Company operated and generated taxable income. Management periodically evaluated positions taken in tax returns with respect to situations in which applicable tax regulation was subject to interpretation. It established provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

Deferred income tax was provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities were not recognised if they arose from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affected neither accounting nor taxable profit or loss. Deferred income tax was determined using tax rates (and laws) that were enacted or substantively enacted by the end of the reporting period and were expected to apply when the related deferred income tax asset was realised or the deferred income tax liability was settled.

Deferred tax assets were recognised only if it was probable that future taxable amounts would be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets were not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company was able to control the timing of the reversal of the temporary differences and it was probable that the differences would not reverse in the foreseeable future.

Deferred tax assets and liabilities were offset when there was a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances related to the same taxation authority. Current tax assets and tax liabilities were offset where the entity had a legally enforceable right to offset and intended either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax was recognised in profit or loss, except to the extent that it related to items recognised in OCI or directly in equity. In this case, the tax was also recognised in OCI or directly in equity, respectively.

2 Summary of significant accounting policies (Continued)

(s) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that were expected to be settled wholly within twelve months after the end of the period in which the employees render the related service were recognised in respect of employees' services up to the end of the reporting period and were measured at the amounts expected to be paid when the liabilities were settled. The liabilities were presented as current employee benefit obligations in the balance sheet.

(ii) Pension obligations

The Group operated a post-employment scheme which was a defined contribution pension plan.

For the defined contribution plan, the Group paid contributions to a publicly administered pension insurance plan on a mandatory and contractual basis. The Group had no further payment obligations once the contributions were paid. The contributions were recognised as employee benefit expense when they were due. Prepaid contributions were recognised as an asset to the extent that a cash refund or a reduction in the future payments was available.

(iii) Bonus plans

The Group recognised a liability and an expense for bonuses based on a formula that took into consideration the (loss)/profit attributable to the Members after certain adjustments. The Group recognised a provision where contractually obliged or where there was a past practice that created a constructive obligation.

(iv) Termination benefits

Termination benefits were payable when employment was terminated by the Group before the normal retirement date, or whenever an employee accepted voluntary redundancy in exchange for these benefits. The Group recognised termination benefits when the Group could no longer withdraw the offer of those benefits. Benefits falling due more than twelve months after the end of the reporting period were discounted to their present value.

2 Summary of significant accounting policies (Continued)

(t) Share-based payments

Share-based compensation benefits were provided to employees via the Scheme. Information relating to the Scheme is set out in Note 24.

Options

The fair value of Options granted under the Scheme was recognised as an expense with a corresponding increase in equity. The total amount to be expensed was determined by reference to the fair value of the Options granted:

- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of each period, the entity revised its estimates of the number of Options that were expected to vest based on the non-market vesting and service conditions. It recognised the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(u) Provisions

Provisions for legal claims, service warranties and make good obligations were recognised when the Group had a present legal or constructive obligation as a result of past events, it was probable that an outflow of resources would be required to settle the obligation and the amount could be reliably estimated. Provisions were not recognised for future operating losses.

Where there were a number of similar obligations, the likelihood that an outflow would be required in settlement was determined by considering the class of obligations as a whole. A provision was recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

Provisions were measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value was a pre-tax rate that reflected current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time was recognised as interest expense.

2 Summary of significant accounting policies (Continued)

(v) 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.

(i) 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.

(ii) 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.

(iii) 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.

2 Summary of significant accounting policies (Continued)

(w) Interest income

Interest income was recognised using the effective interest method. When loans and receivables were impaired, the Group reduced the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continued unwinding the discount as interest income. Interest income on impaired loans and receivables were recognised using the original effective interest rate.

(x) Dividend income

Dividends were recognised as other income when the right to receive payment was established.

(y) Leases

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 29). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

(z) Dividends distribution

Dividend distribution to the Members was recognised as a liability in the financial statements of the Group in the period in which the dividends were approved by the Members.

3 Financial risk management

This note explains the exposure of the Group to financial risks and how these risks could affect the future financial performance of the Group. Current year profit and loss information were included where relevant to add further context.

Risk	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Future commercial transactions	Cash flow forecasting	Minimal risk
	Recognised financial assets and liabilities not denominated in HK$	Sensitivity analysis	
Market risk – interest rate	Long-term borrowings at variable rates	Sensitivity analysis	Risk not significant
Market risk – security prices	Investments in equity securities	Sensitivity analysis	Portfolio diversion
Credit risk	Cash and cash equivalents, trade receivables and AFS debt instruments	Aging analysis Credit ratings	Diversification of bank deposits, credit limits and letters of credit Investment guidelines for AFS investments
Liquidity risk	Borrowings and other liabilities	Rolling cash flow forecasts	Availability of committed credit lines and borrowing facilities

The risk management of the Group was carried out by the Directors. They identified and evaluated financial risks in close co-operation with the operating units of the Group.

3 Financial risk management (Continued)

(a) Financial risk factors

(i) Market risk

(I) Foreign exchange risk

The Group operated internationally and was exposed to foreign exchange risk arising from various currency transactions, primarily with respect to US$, MOP and RMB. Foreign exchange risk arose from future commercial transactions and recognised assets and liabilities denominated in a currency that was not the Functional Currency of the relevant Group entity.

Exposure

Management considered that foreign exchange risk related to financial assets denominated in US$ and MOP was minimal, since these currencies were pegged to HK$ and exchange rate fluctuation was minimal throughout the Year. The exposure of the Group to foreign currency risk at the end of the reporting period, expressed in HK$, was as follows:

	2017 RMB HK$'000	2016 RMB HK$'000
AFS financial assets	**6,779**	1,456
Cash and cash equivalents	**119**	151
Restricted cash	**—**	24,895

Sensitivity

As shown in the table above, the Group was exposed to changes in RMB/HK$ exchange rates. The sensitivity of profit or loss to changes in the exchange rates arose mainly from RMB denominated financial assets. As at 31st December 2017, if HK$ had weakened/strengthened by 5% against RMB with all other variables held constant, post tax profit for the Year would have been HK$345,000 (2016: HK$1,325,000) higher/lower.

(II) Cash flow and fair value interest rate risk

The interest rate risk of the Group arose from bank deposits. The interest income from bank deposits was not significant. As such, the cash flows of the Group were substantially independent of changes in market interest rates.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(i) Market risk (Continued)

(III) Price risk

Exposure

The exposure of the Group to equity and debt securities price risk arose from investments held by the Group and classified in the balance sheet as AFS (Note 17).

To manage its price risk arising from investments in equity securities, corporate bonds and debentures, the Group diversified its portfolio. Diversification of the portfolio was done in accordance with the limits set by the Group.

Sensitivity

With all other variables held constant, if the market price of AFS financial assets measured at fair value had been 10% higher/lower than the actual closing price as at 31st December 2017, other components of equity would increase/decrease by approximately HK$3,991,000 (2016: HK$4,918,000).

(ii) Credit risk

Credit risk arose from cash and cash equivalents, advance to suppliers and deposits with banks, as well as credit exposures to customers, including outstanding receivables.

(I) Risk management

Credit risk was managed on a Group basis, except for credit risk relating to accounts receivable balances.

Each local entity was responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions were offered. Risk control assessed the credit quality of the customers, banks and financial institutions, taking into account its financial position, past experience and other factors. Individual risk limits were set based on internal or external ratings in accordance with limits set by the Board. The compliance with credit limits by customers was regularly monitored by line management.

(II) Security

For an advance to a supplier the Group obtained security in the form of promissory note which could be presented to court if the counterparty was in default under the terms of the agreement.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk

Prudent liquidity risk management implied maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the Group held deposits at call of HK$74,467,000 (2016: HK$63,251,000) that were expected to readily generate cash inflows for managing liquidity risk. Due to the dynamic nature of the underlying businesses, the Directors maintained flexibility in funding by maintaining availability under committed credit lines.

Management monitored rolling forecasts of the liquidity reserve and cash and cash equivalents (Note 20) of the Group on the basis of expected cash flows. This was generally carried out at local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits varied by location to take into account the liquidity of the market in which the entity operated. In addition, the liquidity management policy of the Group involved projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

(I) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2017 **HK$'000**	2016 HK$'000
Fixed rate		
Expiring within one year	**396,141**	404,345

The bank facilities might be drawn at any time and might be terminated by the bank without notice.

3 Financial risk management (Continued)

(a) Financial risk factors (Continued)

(iii) Liquidity risk (Continued)

(II) Maturities of financial liabilities

The table below analysed the financial liabilities of the Group into relevant maturity groupings based on their contractual maturities for all non-derivative liabilities.

The amounts disclosed in the table were the contractual undiscounted cash flows. Balances due within twelve months equalled their carrying balances as the impact of discounting was not significant.

Contractual maturities of financial liabilities	**Less than one year HK$'000**
As at 31st December 2017	
Trade and bills payables	**82,245**
Other payables	**29,399**
Total	**111,644**
As at 31st December 2016	
Trade and bills payables	118,522
Other payables	26,933
Total	145,455

3 Financial risk management (Continued)

(b) Capital management

(i) Risk management

The objectives of the Group when managing capital were to

- safeguard their ability to continue as a going concern, so that they could continue to provide returns for Members and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group might adjust the amount of dividends paid to Members, return capital to Members, issue new Shares or sell assets to reduce debt.

(ii) Loan covenants

Under the terms of the major borrowing facilities, the Group was required to comply with the following financial covenants:

- to maintain consolidated tangible net worth of no less than HK$200,000,000,
- to maintain HK$45,000,000 average credit balance in a bank at all times,
- to maintain net external gearing ratio of no more than 0.5x, and
- the Company to remain listed on GEM.

3 Financial risk management (Continued)

(c) Fair value estimation for financial assets and liabilities

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that were recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group classified its financial instruments into the two levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

Recurring fair value measurements	**31st December 2017 Level one HK$'000**
Financial assets	
AFS financial assets	
Debt investments	**39,911**

	31st December 2016		
Recurring fair value measurements	**Level one HK$'000**	**Level three HK$'000**	**Total HK$'000**
Financial assets			
AFS financial assets			
Equity securities	5,109	25,084	30,193
Debt investments	18,989	—	18,989
Total financial assets	24,098	25,084	49,182

There was no transfers between different levels for recurring fair value measurements during the Year.

The policy of the Group was to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

3 Financial risk management (Continued)

(c) Fair value estimation for financial assets and liabilities (Continued)

(i) Fair value hierarchy (Continued)

Level one: The fair value of financial instruments traded in active markets (such as publicy traded derivatives, and trading and AFS securities) was based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group was the current bid price. These instruments were included in level one.

Level three: The fair value of financial instruments that were not traded in an active market was determined by using valuation techniques. If one or more significant inputs was not based on observable market data, the instrument was included in level three. This was the case for unlisted equity securities.

(ii) Valuation techniques used to determine fair values

Discounted cash flow analysis was used to value unlisted equity securities.

The resulting fair value estimate was included in level three, where the fair value was determined based on present values and the discount rates used were adjusted for counterparty or own credit risk.

(iii) Fair value measurements using significant unobservable inputs (level three)

The following table presents the changes in level three items for the Year and the year ended 31st December 2016:

	2017 HK$'000	2016 HK$'000
Opening balance as at 1st January	**25,084**	54,578
Loss recognised in OCI	**(14,583)**	(29,494)
Loss recognised in profit or loss	**(10,501)**	—
Closing balance as at 31st December	**—**	25,084

3 Financial risk management (Continued)

(c) Fair value estimation for financial assets and liabilities (Continued)

(iv) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level three fair value measurements. See (ii) above for the valuation technique adopted.

Fair value as at	Unobservable inputs	2017	2016
31st December 2017	Weighted average cost of capital	**20.10%**	21.74%
	Long-term revenue growth rate	**2.10%**	1.20%
	Discount for lack of marketability	**10.90%**	10.90%
	Discount for lack of control	**22.00%**	24.76%

(v) Valuation processes

The fair value of level three unlisted equity securities was determined by an independent qualified valuer based on discounted cash flow. The Directors reviewed the valuation performed by the independent valuer for financial reporting purposes.

The main level three inputs used by the Group were derived and evaluated as follows:

- Discount rates for financial assets were determined using a capital asset pricing model to calculate a pre-tax rate that reflected current market assessments of the time value of money and the risk specific to the asset.
- Risk adjustments specific to the counterparties were derived from credit risk gradings determined by the independent qualified valuer.
- Earnings growth factor for unlisted equity securities were estimated based on market information for similar types of companies.

Changes in level three fair values were analysed at the end of each reporting period.

4 Critical estimates and judgements

The preparation of financial statements required the use of accounting estimates which, by definition, would seldom equal the actual results. Management also needed to exercise judgement in applying the accouting policies of the Group.

Estimates and judgements were continually evaluated. They were based on historical experience and other factors, including expectations of future events that might have a financial impact on the entity and that were believed to be reasonable under the circumstances.

(a) Critical accounting estimates

(i) Provision for impairment of inventories

The Group reviewed an ageing analysis of inventories at each balance sheet date, and made allowance for obsolete and slow-moving inventories identified that were no longer recoverable or suitable for use. Management estimated the net realisable value for inventories based primarily on the latest invoice prices and current market conditions. The Group carried out a review of inventories on a product-by-product basis at each balance sheet date and made allowances for obsolete items.

(ii) Provision for impairment of trade and other receivables

The provisioning policy for trade and other receivables of the Group was based on the evaluation of the collectability of those receivables and on management's judgement. A considerable amount of judgement was required in assessing the ultimate realisation of the receivables, including the current creditworthiness and the past collection history of each customer and the realisation of any repayment pattern promised. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their individual ability to make payments, additional provision might be required.

(iii) Estimation of current tax payable and current tax expense

The Group was subject to income taxes in a few jurisdictions. Significant judgement was required in determining the worldwide provision for income taxes. There were many transactions and calculations for which the ultimate tax determination was uncertain. The Group recognised liabilities for anticipated tax audit issues based on estimates of whether additional taxes would be due. Where the final tax outcome of these matters was different from the amounts that were initially recorded, such differences would impact the current and deferred income tax assets and liabilities in the period in which such determination was made.

4 Critical estimates and judgements (Continued)

(a) Critical accounting estimates (Continued)

(iv) Estimation of the fair value of certain AFS financial assets

The fair value of financial instruments that were not traded in an active market was determined using valuation techniques. The Group used its judgement to select a variety of methods and made assumptions that were mainly based on market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see Note 3(c).

(b) Critical accounting judgements: Consolidation decision – consolidation of an entity with less than 50% ownership

The Directors concluded that the Company indirectly controlled GZIC, even though it held less than half of the voting rights of this subsidiary. This was because GVDL held 81.82% interest directly in GZIC and was able to control GZIC. For details of GVDL and GZIC see Note 10.

5 Segment information

(a) Description of segments and principal activities

The executive Directors examined the performance of the Group both from a product and geographic perspective and identified three reportable segments of its business:

(i) Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services – Mainland China

The founding business of the Group mainly comprised of provision of technical support services.

(ii) Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services – Hong Kong and Macao

This segment was mainly for the Government of Macao and gaming and hotel operators in Macao, and various telecommunications solutions providers located in Hong Kong, with branches across the world. It began to grow since 2003 and specialised in the IT and surveillance systems in casinos. It also included the provision of computer software, hardware and system integration, network management services and customised software in Macao, carried under MDL.

(iii) CNMS

It engaged in software consultancy services in PRC.

The executive Directors primarily used a measure of adjusted EBITDA (see below) to assess the performance of the operating segments. However, they also received information about the revenue and assets of the segments on a monthly basis.

The Group derived the following types of revenue:

	2017 **HK$'000**	2016 HK$'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
CNMS	**17,189**	16,840
Total revenue	**439,317**	451,371

5 Segment information (Continued)

(b) Segment revenue

The revenue from external parties was measured in the same way as in the statement of profit or loss.

	Revenue from external customers	
	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:		
– Mainland China	**16,041**	12,914
– Hong Kong and Macao	**406,087**	421,617
CNMS	**17,189**	16,840
Total segment revenue	**439,317**	451,371

Revenues of approximately HK$105,637,000 (2016: HK$122,920,000) were derived from a single group of external customers. These revenues were 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.

The Company was domiciled in Bermuda. All revenues were derived outside Bermuda.

(c) Adjusted EBITDA

Adjusted EBITDA excluded the effects of gains or losses on financial instruments.

Interest income and finance cost were not allocated to segments, as this type of activity was driven by the executive Directors, who managed the cash position of the Group.

	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:		
– Mainland China	**(5,472)**	(7,346)
– Hong Kong and Macao	**10,679**	17,026
CNMS	**3,421**	(3,066)
Total adjusted EBITDA	**8,628**	6,614

5 Segment information (Continued)

(c) Adjusted EBITDA (Continued)

Adjusted EBITDA reconciled to (loss)/profit before income tax as follows:

	2017 HK$'000	2016 HK$'000
Total adjusted EBITDA	**8,628**	6,614
Dividend income	**—**	28
Depreciation	**(1,676)**	(971)
Finance income – net	**2,253**	3,048
Loss on disposal of AFS financial assets	**(1,328)**	(1,536)
Impairment loss of AFS financial assets	**(10,501)**	—
Profit on disposal of an associate	**—**	230
(Loss)/profit before income tax	**(2,624)**	7,413

(d) Other profit and loss disclosures

	2017 Depreciation HK$'000	2017 Income tax expense HK$'000	2017 Share of profit of an associate HK$'000	2016 Depreciation HK$'000	2016 Income tax credit/(expense) HK$'000	2016 Share of loss of an associate HK$'000
Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services:						
– Mainland China	**(310)**	**—**	**—**	(185)	1,960	—
– Hong Kong and Macao	**(806)**	**(2,983)**	**7**	(520)	(3,208)	(3)
CNMS	**(560)**	**(156)**	**—**	(266)	141	—
Total	**(1,676)**	**(3,139)**	**7**	(971)	(1,107)	(3)

5 Segment information (Continued)

(e) Segment assets

Segment assets were measured in the same way as in the financial statements. These assets were allocated based on the operations of the segment and the physical location of the asset.

	2017 Segment assets HK$'000	2017 Investment in an associate HK$'000	2017 Additions to non-current assets HK$'000	2016 Segment assets HK$'000	2016 Investment in an associate HK$'000	2016 Additions to non-current assets HK$'000
Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services:						
– Mainland China	**14,806**	**—**	**113**	23,592	—	228
– Hong Kong and Macao	**288,590**	**808**	**1,902**	331,294	801	769
CNMS	**21,594**	**—**	**1,644**	16,602	—	740
Total segment assets	**324,990**	**808**	**3,659**	371,488	801	1,737
Unallocated:						
AFS financial assets	**46,170**			50,638		
Total assets as per the balance sheet	**371,160**			422,126		

Investments in equity and debt instruments (classified as AFS financial assets) held by the Group were not considered to be segment assets, but were managed by the executive Directors.

Non-current assets, other than AFS financial assets, were located in the PRC.

6 Other loss

	2017 HK$'000	2016 HK$'000
Loss on disposal of AFS financial assets	**(1,328)**	(1,536)
Profit on disposal of an associate	**—**	230
Other items	**209**	151
	(1,119)	(1,155)

7 Expenses by nature

	2017 HK$'000	2016 HK$'000
Auditor's remuneration – audit services	**1,515**	1,570
Changes in inventories	**273,019**	295,773
Depreciation (Note 14)	**1,676**	971
Employee benefit expense and Directors' emoluments (Note 8)	**73,042**	60,925
Provision on inventories	**528**	266
(Reversal of)/provision on trade receivables, net (Note 18)	**(474)**	677
Loss on disposal of property, plant and equipment	**11**	48
Operating lease payments	**3,319**	3,385
Transportation expenses	**3,400**	2,654
Other expenses	**76,545**	76,315
Total cost of sales, selling and marketing costs and administrative expenses	**432,581**	442,584

8 Employee benefit expense and Directors' emoluments

	2017 HK$'000	2016 HK$'000
Wages and salaries	**70,342**	54,998
Directors' fees	**750**	765
Social security costs	**1,582**	1,665
Options granted to Directors and employees (Note 24)	**—**	3,206
Pension costs - defined contribution plans	**368**	291
Total employee benefit expense	**73,042**	60,925

(a) Pensions - defined contribution plans

There were no forfeited contributions.

Contributions totalling HK$368,000 (2016: HK$291,000) were paid to the fund as at 31st December 2017.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Year included three (2016: three) Directors whose emoluments are reflected in the analysis shown in Note 32. The emoluments payable to the remaining two (2016: two) individuals during the Year are as follows:

	2017 HK$'000	2016 HK$'000
Basic salaries and allowances	**1,843**	2,043
Contributions to pension scheme	**21**	—
Bonuses	**107**	—

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands (in HK$)		
<HK$1,000,000	**2**	1
HK$1,000,000 – HK$1,500,000	**—**	1

8 Employee benefit expense and Directors' emoluments (Continued)

(c) Remuneration payable to members of senior management (other than Directors) by band

	Number of individuals	
	2017	2016
Emolument bands (in HK$)		
<HK$500,000	**3**	3
HK$500,000 – HK$1,000,000	**10**	10
>HK$1,000,000	**2**	2

9 Finance income and costs

	2017 **HK$'000**	2016 HK$'000
Finance income		
Interest income	**2,254**	3,083
Finance costs expensed		
Bank borrowing interest expense	**(1)**	(35)
Net finance income	**2,253**	3,048

10 Subsidiaries

The principal subsidiaries of the Company as at 31st December 2017 are set out below. Unless otherwise stated, they were held indirectly by the Company. The proportion of ownership interests held equalled the voting rights held by the Company.

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital / registered capital	Ownership interest held by the Company (%)	Ownership interest held by non-controlling interests (%)
泰思通軟件(江西)有限公司("TSTJX")	PRC, limited liability company	Research and development of software and related software consultancy services in Mainland China	RMB5,000,000	76	24
泰思通軟件(上海)有限公司("TSTSH")	PRC, limited liability company	Investment holding, research and development of software and related software consultancy services in Mainland China	US$1,510,000	76	24
廣州市愛達利發展有限公司("GVDL")	PRC, limited liability company	Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services in Mainland China	RMB3,000,000	54	46
廣州市圖文資訊有限公司("GZIC")	PRC, limited liability company	Provision of Internet related data services in Mainland China	RMB1,000,000	44	56
廣州愛達利科技有限公司	PRC, limited liability company	Design, sale and implementation of network and systems infrastructure; customer data automation, customisation and integration; and provision of technical support services in Mainland China	HK$3,000,000	100	—
Guangzhou Thinker Vodatel Limited	PRC, limited liability company	Research and development of wireless data communications and Internet related products in Mainland China	US$1,505,000	82	18
Mega Datatech Limited ("MDL")	Macao, limited liability company	Provision of computer software, hardware and system integration in Macao	MOP100,000	100	—
Tidestone Science and Technology (Hong Kong) Company Limited	Hong Kong, limited liability company	Investment holding in Mainland China and software consultancy services in Hong Kong	1,000 ordinary shares	76	24
Vodatel Holdings Limited ("VHL")	BVI, limited liability company	Investment holding and design, sale and implementation of network and systems infrastructure, customer data automation, customisation and integration; and provision of technical support services in Macao	10,000 ordinary shares of US$1 each	100 (Note)	—
VDT Operator Holdings Limited	BVI, limited liability company	Investment holding in Hong Kong and Timor-Leste	1,000 ordinary shares of US$1 each	100	—

10 Subsidiaries (Continued)

Name of entity	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital / registered capital	Ownership interest held by the Company (%)	Ownership interest held by non-controlling interests (%)
Vodatel Networks (H.K.) Limited	Hong Kong, limited liability company	Sale of data networking systems and provision of related engineering services in Hong Kong	2 ordinary shares	100	—
Vodatel Systems Inc.	BVI, limited liability company	Sale of data networking systems in Macao	1,000 ordinary shares of US$1 each	100	—
Vodatel Systems (HK) Limited	BVI, limited liability company	Provision of warehouse services in Hong Kong	1,000 ordinary shares of US$1 each	100	—
Zhuhai MegaSoft Software Development Co., Ltd. ("ZHMSDL")	PRC, limited liability company	Research and development of software and related software consultancy services in Mainland China	HK$3,200,000	100	—

Note:

Shares held directly by the Company.

(a) Significant restrictions

Cash and short-term deposits held in Mainland China were subject to local exchange control regulations. These regulations provided for restrictions on exporting capital from Mainland China, other than through normal dividends.

The carrying amounts of the assets included within the consolidated financial statements to which these restrictions applied was HK$7,411,000 (2016: HK$16,645,000).

(b) Non-controlling interests

The total non-controlling interests as at 31st December 2017 was a deficit of HK$935,000 (2016: HK$2,707,000). The non-controlling interests in respect of each individual subsidiary was not material.

11 Interest in an associate

Set out below is the associate of the Group as at 31st December 2017. The entity listed below had share capital consisting solely of shares, which were held directly by the Group. The place of incorporation was also its principal place of business, and the proportion of ownership was the same as the proportion of voting rights.

Name of entity	Place of business/ incorporation	% of ownership interest	Nature of the relationship	Measurement method
Source Tech, Limited ("STL")	Macao	45	Note	Equity

Note:

STL was principally engaged in the provision of service in the areas of information systems and maintenance software. STL became inactive as at 30th December 2015.

STL was a private company and there was no quoted market price available for its shares.

There were no contingent liabilities relating to the interest of the Group in STL.

Summarised financial information for an associate

The table below provides summarised financial information for STL. The information disclosed reflected the amounts presented in the financial statements of STL and not the share of those amounts of the Company.

Summarised balance sheet	2017 HK$'000	2016 HK$'000
Total current assets	**1,799**	1,783
Total current liabilities	**(1)**	(2)
Net assets	**1,798**	1,781
Reconciliation to carrying amounts:		
Opening net assets as at 1st January	**1,781**	1,787
Profit/(loss) for the Year	**17**	(6)
Closing net assets	**1,798**	1,781
Share of the Group in %	**45%**	45%
Share of the Group in HK$'000 and carrying amounts	**808**	801
Revenue	**—**	13
Profit/(loss) for the Year and total comprehensive income/(expense)	**17**	(6)

12 Income tax expense

This note provides an analysis of the income tax expense of the Group, shows how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the tax position of the Group.

(a) Income tax expense

	2017 **HK$'000**	2016 HK$'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

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2017 **HK$'000**	2016 HK$'000
(Loss)/profit before tax	**(2,624)**	7,413
Tax calculated at domestic tax rates applicable to profits in the respective regions	**(814)**	104
Tax effects of:		
- Income not subject to tax	**(200)**	(478)
- Expenses not deductible for tax purposes	**2,522**	561
- Previously unrecognised tax losses now recouped to reduce current tax expense	**(160)**	(341)
- Tax losses for which no deferred income tax asset was recognised	**1,950**	2,394
Adjustments for current tax of prior periods	**(159)**	(1,133)
Income tax expense	**3,139**	1,107

13 (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 **HK$'000**	2016 HK$'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. Details relating to the Options are set out in Note 24.

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.

14 Property, plant and equipment

Non-current	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Demonstration equipment HK$'000	Total HK$'000
As at 1st January 2016					
Cost	1,970	9,054	2,676	659	14,359
Accumulated depreciation	(1,755)	(7,491)	(2,360)	(348)	(11,954)
Net book amount	215	1,563	316	311	2,405
Year ended 31st December 2016					
Opening net book amount	215	1,563	316	311	2,405
Exchange differences	(7)	(97)	(7)	—	(111)
Additions	196	1,359	149	33	1,737
Disposals	—	(357)	(57)	—	(414)
Depreciation charge (Note 7)	(118)	(569)	(123)	(161)	(971)
Closing net book amount	286	1,899	278	183	2,646
As at 31st December 2016					
Cost	2,156	9,365	1,814	692	14,027
Accumulated depreciation	(1,870)	(7,466)	(1,536)	(509)	(11,381)
Net book amount	286	1,899	278	183	2,646
Year					
Opening net book amount	286	1,899	278	183	2,646
Exchange differences	(57)	225	4	—	172
Additions	74	2,187	5	1,393	3,659
Disposals	—	(23)	(3)	—	(26)
Depreciation charge (Note 7)	(174)	(924)	(90)	(488)	(1,676)
Closing net book amount	129	3,364	194	1,088	4,775
As at 31st December 2017					
Cost	2,181	11,258	1,821	2,085	17,345
Accumulated depreciation	(2,052)	(7,894)	(1,627)	(997)	(12,570)
Net book amount	129	3,364	194	1,088	4,775

15 Financial instruments by category

Financial assets	Loans and receivables HK$'000	AFS financial assets HK$'000	Total HK$'000
2017			
Trade and other receivables and deposits excluding prepayments	**214,484**	**—**	**214,484**
AFS financial assets	**—**	**46,170**	**46,170**
Cash and cash equivalents	**75,342**	**—**	**75,342**
	289,826	**46,170**	**335,996**
2016			
Trade and other receivables and deposits excluding prepayments	245,822	—	245,822
AFS financial assets	—	50,638	50,638
Cash and cash equivalents	64,122	—	64,122
Restricted cash	24,895	—	24,895
	334,839	50,638	385,477

Financial liabilities	Liabilities at amortised cost HK$'000
2017	
Trade, bills and other payables excluding non-financial liabilities	**117,791**
2016	
Trade, bills and other payables excluding non-financial liabilities	145,455

The exposure of the Group to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure of credit risk at the end of the reporting period was the carrying amount of each class of financial assets mentioned above.

16 Credit quality of financial assets

The credit quality of financial assets that were neither past due nor impaired could be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Cash at bank and short-term bank deposits

	2017 **HK$'000**	2016 HK$'000
Banks with external credit rating (Moody's)		
Aa2	**—**	3,862
Aa3	**3,179**	12,149
A1	**7,957**	18,120
A2	**17,760**	22
A3	**17,106**	7,433
Baa1	**878**	2,224
Baa3	**424**	363
Ba3	**27,496**	—
B1	**—**	19,408
Cash	**542**	541
	75,342	64,122
Restricted cash		
B1	**—**	24,895

17 AFS financial assets

AFS financial assets included the following classes of financial assets:

	2017 HK$'000	2016 HK$'000
Listed securities		
Equity securities – Hong Kong	—	5,109
Corporate bonds	**39,911**	18,989
	39,911	24,098
Unlisted securities		
Equity securities	**1,456**	26,540
Debt securities	**4,803**	–
	6,259	26,540
	46,170	50,638

(a) Impairment indicators for AFS financial assets

An equity security was considered to be impaired if there was a significant or prolonged decline in the fair value below its cost. See Note 2(k) for further details about the impairment policies of the Group for financial assets.

(b) Amounts recognised in profit or loss and OCI

During the Year, the following losses were recognised in profit or loss and OCI.

AFS financial assets included the following:

	2017 HK$'000	2016 HK$'000
Losses recognised in OCI (Note 22)	**(11,681)**	(31,311)
Losses recognised in profit or loss as other loss (Note 6)	**(1,328)**	(1,536)
Losses recognised in profit or loss as impairment loss of AFS financial assets	**(10,501)**	—

17 AFS financial assets (Continued)

(c) Fair value, impairment and risk exposure

Information about the methods and assumptions used in determining fair value was provided in Note 3(c).

AFS financial assets were denominated in the following currencies:

	2017 HK$'000	2016 HK$'000
HK$	**—**	5,109
MOP	**1,456**	1,456
RMB	**6,779**	—
US$	**37,935**	44,073
	46,170	50,638

For an analysis of the sensitivity of AFS financial assets to price and interest rate risk refer to Note 3(a).

18 Trade and other receivables, deposits and prepayments

Current assets	**2017 HK$'000**	2016 HK$'000
Trade receivables	**199,224**	239,363
Provision for impairment (Note c)	**(15,112)**	(14,625)
	184,112	224,738
Other receivables and deposits (Note a)	**30,372**	21,084
Financial assets at amortised cost	**214,484**	245,822
Prepayments	**6,759**	5,485
Total trade and other receivables	**221,243**	251,307

18 Trade and other receivables, deposits and prepayments (Continued)

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

	2017 HK$'000	2016 HK$'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

(a) Other receivables

These amounts generally arose from transactions outside the usual operating activities of the Group. Collateral was not normally obtained.

(b) Fair values of trade and other receivables

Due to the short-term nature of the current receivables, their carrying amounts were considered to be the same as their fair values.

(c) Impaired trade receivables

Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment was incurred but not yet identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment.

The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor,
- probability that the debtor would enter bankruptcy of financial reorganisation, and
- default or delinquency in payments (more than two years overdue).

18 Trade and other receivables, deposits and prepayments (Continued)

(c) Impaired trade receivables (Continued)

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

As at 31st December 2017, trade receivables of HK$15,112,000 (2016: HK$14,625,000) were impaired and were fully provided for. The trade receivables aged more than twelve months.

Movements in the provision for impairment of trade receivables that were assessed for impairment collectively are as follows:

	2017 HK$'000	2016 HK$'000
As at 1st January	**14,625**	15,124
Provision for impairment recognised during the Year	**—**	861
Unused amounts reversed	**(474)**	(184)
Currency translation differences	**961**	(1,176)
As at 31st December	**15,112**	14,625

Amounts recognised in profit or loss

During the Year, the following losses were recognised in profit or loss in relation to impaired receivables.

	2017 HK$'000	2016 HK$'000
Impairment losses		
– Movement in provision for impairment	**—**	(861)
Reversal of previous impairment losses	**474**	184

18 Trade and other receivables, deposits and prepayments (Continued)

(d) Past due but not impaired

As at 31st December 2017, trade receivables of HK$184,112,000 (2016: HK$182,063,000) were past due but not impaired. These related to a number of independent customers for whom there was no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017 **HK$'000**	2016 HK$'000
Within three months	**159,920**	134,894
> Three months but ≤ six months	**11,743**	11,006
> Six months but ≤ twelve months	**5,143**	1,337
Over twelve months	**7,306**	34,826
	184,112	182,063

The other classes within trade and other receivables did not contain impaired assets and were not past due. Based on the credit history of these other classes, it was expected that these amounts would be received when due. The Group did not hold any collateral in relation to these receivables.

19 Inventories

	2017 HK$'000	2016 HK$'000
Current assets		
Networking equipment	**22,822**	27,713

(a) Assigning costs to inventories

The costs of individual items of inventory were determined using weighted average costs. See Note 2(l) for the other accounting policies of the Group for inventories.

(b) Amounts recognised in profit or loss

Inventories recognised as expense during the Year amounted to HK$273,019,000 (2016: HK$295,773,000). These were included in cost of sales.

Write-downs of inventories to net realisable value amounted to HK$528,000 (2016: HK$266,000). These were recognised as an expense during the Year and included in cost of sales in profit or loss.

20 Cash and cash equivalents

	2017 HK$'000	2016 HK$'000
Current assets		
Cash at bank and in hand	**75,009**	63,792
Short-term bank deposits	**333**	330
	75,342	64,122

Restricted cash

As at 31st December 2016, HK$24,895,000 were restricted deposits held at bank. Restricted deposit was held as reserve for obtaining banking facilities provided by a bank.

21 Share capital

	2017	2016	2017	2016
	Shares (thousands)	Shares (thousands)	**HK$'000**	HK$'000
Shares, fully paid:	**614,435**	613,819	**61,570**	61,382

(a) Movements in Shares:

	Number of Shares (thousands)	**Share capital HK$'000**
Details		
Opening balance as at 1st January 2016 and balance as at 31st December 2016	613,819	61,382
Exercise of Options – proceeds received	616	188
Balance as at 31st December 2017	614,435	61,570

(b) Shares

Shares had a par value of HK$0.10 each. They entitled the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the Shares held.

On a show of hands every holder of Shares present at a meeting in person or by proxy, was entitled to one vote, and upon a poll each Share was entitled to one vote.

The Company had a limited amount of authorised share capital of HK$200,000,000.

(c) Options

Information relating to the Scheme, including details of Options issued, exercised and lapsed during the Year and Options outstanding at the end of the reporting periods, is set out in Note 24.

22 Other reserves

The following table shows a breakdown of the balance sheet item "other reserves" and the movements in these reserves during the Year. A description of the nature and purpose of certain reserves is provided below.

	Contributed surplus HK$'000	Share-based payments HK$'000 (Note 24)	Capital redemption reserve HK$'000	AFS financial assets HK$'000	Merger reserve HK$'000	Statutory reserve HK$'000	Foreign currency translation HK$'000	Total other reserves HK$'000
As at 1st January 2016	**97,676**	**4,178**	**702**	**43,481**	**35,549**	**49**	**3,033**	**184,668**
Revaluation – loss	–	–	–	(32,852)	–	–	–	(32,852)
Reclassification to profit or loss – gross	–	–	–	1,541	–	–	–	1,541
Currency translation differences	–	–	–	–	–	–	(120)	(120)
OCI	–	–	–	(31,311)	–	–	(120)	(31,431)
Transactions with owners in their capacity as onwers – Issue of Options under Scheme	–	3,264	–	–	–	–	–	3,264
As at 31st December 2016	**97,676**	**7,442**	**702**	**12,170**	**35,549**	**49**	**2,913**	**156,501**
Revaluation – loss	–	–	–	(12,661)	–	–	–	(12,661)
Reclassification to profit or loss – gross	–	–	–	980	–	–	–	980
Currency translation differences	–	–	–	–	–	–	1	1
OCI	–	–	–	(11,681)	–	–	1	(11,680)
As at 31st December 2017	**97,676**	**7,442**	**702**	**489**	**35,549**	**49**	**2,914**	**144,821**

22 Other reserves (Continued)

Nature and purpose of other reserves

Merger reserve

It included the difference between the nominal value of the share capital of a subsidiary acquired and the nominal value of the Shares in exchange thereof together with an existing balance on the share premium account of a subsidiary.

Statutory reserve

The Macao Decreto-Lei n° 40/99/M Código Comercial (Commercial Code) required a company incorporated in Macao to set aside a minimum of 25% of the profit after income tax expense to the statutory reserve each financial year until the balance of the reserve reached a level equivalent to 50% of the capital of the company. Statutory reserve represented the amount set aside and not distributable to the Members.

AFS financial assets

Changes in the fair value and exchange differences arising on translation of investments that were classified as AFS financial assets (e.g. equities), were recognised in OCI and accumulated in a separate reserve within equity. Amounts were classified to profit or loss when the associated assets were sold or impaired, see accouting policy Note 2(k) *(ii)* for details.

Share-based payments

The share-based payments reserve was used to recognise the grant date fair value of Options issued but not exercised.

Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity were recognised in OCI as described in Note 2(f) and accumulated in a separate reserve within equity. The cumulative amount was reclassified to profit or loss when the net investment was disposed of.

23 Retained earnings

	2017 HK$'000	2016 HK$'000
Balances as at 1st January	**21,042**	18,191
Net (loss)/profit for the Year	**(4,827)**	8,989
Dividend	**(6,144)**	(6,138)
Balances as at 31st December	**10,071**	21,042

24 Share-based payments – Scheme

Options were granted to certain Directors, consultants and selected employees. The Subscription Price of the granted Options was equal to the market price of the Shares of the Date of Grant. The Options were exercisable starting three years from the Date of Grant. The Group had no legal or constructive obligation to repurchase or settle the Options in cash.

Set out below are summaries of Options granted under the Scheme.

	2017		2016	
	Exercise price per Option	**Number of Options (thousands)**	Exercise price per Option	Number of Options (thousands)
As at 1st January	**HK$0.305**	**51,376**	—	—
Granted during the Year	**—**	**—**	HK$0.305	51,376
Exercised during the Year	**HK$0.305**	**(616)**	—	—
Cancelled during the Year	**HK$0.305**	**(21,000)**	—	—
Lapsed during the Year	**HK$0.305**	**(1,428)**	—	—
Exercisable as at 31st December	**HK$0.305**	**28,332**	HK$0.305	51,376

The Share price at the date of exercise of Options exercised during the Year was HK$0.46 (2016: not applicable).

No Options expired during the periods covered by the above tables. During the Year, no share-based payment expenses was recognised in the income statement as no Option was granted (2016: HK$3,264,000).

Options outstanding at the end of the Year would expire on 27th September 2019.

25 Trade, bills and other payables and accruals

	2017 HK$'000	2016 HK$'000
Current liabilities		
Trade and bills payables	**82,245**	118,522
Other payables and accruals	**63,815**	57,236
	146,060	175,758

The carrying amounts of trade and other payables were considered to be the same as their fair values, due to their short-term nature.

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

	2017 HK$'000	2016 HK$'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

26 Deferred income tax

Deferred income tax assets were recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits was probable. The Group did not recognise deferred income tax assets of HK$13,830,000 (2016: HK$11,295,000) in respect of tax losses amounting to HK$71,009,000 (2016: HK$63,665,000) that could be carried forward against future taxable income. Cumulative tax losses amounting to HK$44,337,000 (2016: HK$41,812,000) can be carried forward indefinitely; cumulative tax losses of HK$26,672,000 (2016: HK$21,853,000) would expire (if not utilised) within the next five years.

27 Dividends

(a) Dividends recognised during the Year

	2017 **HK$'000**	2016 HK$'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 **HK$'000**	2016 HK$'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

28 Cash flow information – cash used in operations

	2017 **HK$'000**	2016 HK$'000
(Loss)/profit before income tax	**(2,624)**	7,413
Adjustments for		
Depreciation (Note 14)	**1,676**	971
Net loss on sale of AFS financial assets (Note 6)	**1,328**	1,536
Net loss on disposal of property, plant and equipment (Note 7)	**11**	48
Gain on disposal of an associate (Note 6)	**—**	(230)
Non-cash expense - share-based payment	**—**	3,264
Interest classified as investing cash flows (Note 9)	**(2,253)**	(3,048)
Share of (profit)/loss of an associate	**(7)**	3
Impairement loss of AFS financial assets (Note 17(b))	**10,501**	—
Impairment of inventories (Note 7)	**528**	266
(Reversal of)/impairment of trade receivables, net (Note 18)	**(474)**	677
Changes in operating assets and liabilities:		
Decrease/(increase) in inventories	**4,363**	(14,305)
Decrease/(increase) in trade and other receivables, deposits and prepayments	**29,577**	(91,001)
(Decrease)/increase in trade and bills payables	**(36,277)**	71,318
Increase in other payables and accruals	**6,579**	2,161
Increase in amount due from an associate	**—**	1,197
Cash generated from/(used in) operations	**12,928**	(19,730)

29 Commitments – non-cancellable operating leases

The Group leased various offices and a warehouse under non-cancellable operating leases within one to five years. The leases had varying terms and renewal rights. On renewal, the terms of the leases were renegotiated.

	2017 **HK$'000**	2016 HK$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**2,629**	2,735
Later than one year but no later than five years	**992**	2,629
	3,621	5,364

30 Related party transactions

(a) Key management compensation

Management considered remuneration to all key management of the Group is disclosed in Notes 8 and 32 to the financial statements.

(b) Transactions with other related parties

The following transactions occurred with related parties:

	2017 **HK$'000**	2016 HK$'000
Sale and purchases of goods and services		
Sale of goods to an entity controlled by key management personnel	**155**	227
Sale of goods to a restaurant owned by a child of key management personnel	**63**	—
Purchases of goods from an entity controlled by key management personnel	**109**	747
Entertainment expenses paid to a restaurant owned by a child of key management personnel	**22**	—
Other transaction		
Operating lease payments to an executive Director	**1,355**	1,355

Operating lease payments were paid to an executive Director, José Manuel dos Santos, on normal commercial terms and conditions.

30 Related party transactions (Continued)

(c) Outstanding balances arising from sales/purchases of goods and services

The following balances were outstanding at the end of the reporting period in relation to transactions with related parties:

	2017 **HK$'000**	2016 HK$'000
Current receivables (sale of goods and services)		
An entity controlled by key management personnel	**17**	16
(d) Current payables to related parties		
Bonus to executive Directors	**2,851**	3,148

(e) Terms and conditions

Operating lease payments were paid to an executive Director, José Manuel dos Santos, on normal commercial terms and conditions.

The receivables from related parties were denominated in MOP, unsecured in nature, bore no interest and repayable on demand. No provisions were held against receivables from related parties (2016: Nil).

The payables to related parties arose from discretionary bonuses. The payables bore no interest.

Goods were sold based on the price lists in force and terms that would be available to third parties. Goods were sold to an entity controlled by key management personnel on normal commercial terms and conditions. Sales of services were negotiated with related parties at terms determined and agreed by both parties and carried out in the normal course of business. Goods were bought from an entity controlled by key management personnel on normal commercial terms and conditions.

31 Balance sheet and reserve movement of the Company

Balance sheet of the Company

		As at 31st December	
		2017	2016
		HK$'000	HK$'000
Assets			
Non-current assets			
Investments in subsidiaries		**80,001**	80,001
Current assets			
Amounts due from subsidiaries		**215,080**	214,157
Prepayments		**92**	264
Cash and cash equivalents		**442**	550
		215,614	214,971
Liabilities			
Current liabilities			
Amounts due to subsidiaries		**46,824**	46,426
Other payables and accruals		**1,294**	1,343
		48,118	47,769
Net current assets		**167,496**	167,202
Total assets less current liabilities		**247,497**	247,203
Financed by:			
Equity			
Equity attributable to owners of the Company			
Share capital		**61,570**	61,382
Other reserves	(Note (b))	**179,538**	179,538
Retained earnings	(Note (a))		
– Proposed final dividend		**6,144**	6,144
– Others		**245**	139
Total equity		**247,497**	247,203

The balance sheet of the Company was approved by the Board on 20th March 2018 and was signed on its behalf:

José Manuel dos Santos **Monica Maria Nunes**

31 Balance sheet and reserve movement of the Company (Continued)

Notes:

(a) Retained earnings movement of the Company

	HK$'000
As at 1st January 2016	6,315
Profit for the year ended 31st December 2016	6,106
Dividend paid	(6,138)
As at 31st December 2016	6,283
Profit for the Year	6,250
Dividend paid	(6,144)
As at 31st December 2017	6,389

(b) Other reserves

	Contributed surplus (Note (c)) HK$'000	Share-based payment HK$'000	Capital redemption reserve HK$'000	Total HK$'000
Balance as at 1st January 2016, 1st January 2017 and 31st December 2017	**171,394**	**7,442**	**702**	**179,538**

(c) The contributed surplus represented the difference between the consolidated shareholders' funds of the subsidiaries and the nominal value of the Shares issued for the acquisition at the time of the group reorganisation and the entire amount standing to the credit of share premium account of the Company reduced and credited to contributed surplus. Under CA 1981 (as amended), contributed surplus was distributable to the Members, subject to the condition that the Company could not declare or pay a dividend, or make a distribution out of contributed surplus if it was, or would after the payment be, unable to pay its liabilities as they become due, or the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

32 Benefits and interests of Directors (disclosures required by Section 383 of CO, CDIBDR and the GEM Listing Rules) – Directors' and Chief Executives' emoluments

The remuneration of every Director and the Chief Executives is set out below:

For the Year:

Name	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
José Manuel dos Santos	130	4,755	750	—	5,635
Kuan Kin Man (Note (ii))	130	1,224	750	—	2,104
Monica Maria Nunes (Note (ii))	130	1,513	750	22	2,415
Fung Kee Yue Roger	120	—	—	—	120
Wong Tsu An Patrick	120	—	—	—	120
Tou Kam Fai	120	—	—	—	120

For the year ended 31st December 2016:

Name	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
José Manuel dos Santos	130	4,572	750	—	5,452
Yim Hong (Note (i))	15	219	—	5	239
Kuan Kin Man (Note (ii))	130	1,180	750	—	2,060
Monica Maria Nunes (Note (ii))	130	1,456	750	22	2,358
Fung Kee Yue Roger	120	—	—	—	120
Wong Tsu An Patrick	120	—	—	—	120
Tou Kam Fai	120	—	—	—	120

Note:

(i) Also managing director, retired on 12th February 2016.

(ii) Also managing director.

No Director waived or agreed to waive any of their emoluments in respect of the Year (2016: Nil).

Five Year Financial Summary

Results	Year ended 31st December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(Loss)/profit attributable to:					
– Owners of the Company	**(4,827)**	8,989	7,253	29,746	(3,919)
– Non-controlling interest	**(936)**	(2,683)	(793)	(1,182)	2,045
Assets and liabilities					
Total assets	**371,160**	422,126	379,335	517,717	395,085
Total liabilities	**(156,777)**	(184,345)	(113,531)	(238,659)	(111,330)
Total equity	**214,383**	237,781	265,804	279,058	283,755

Definitions

In this annual report (excluding the "Independent Auditor's Report to the shareholders of the Company"), unless the context otherwise requires, the following expressions shall have the following meanings:

"AFS"	available-for-sale
"AGM"	annual general meeting
"AHL"	AGTech Holdings Limited, a company incorporated in Bermuda with limited liability and ordinary shares of HK$0.002 each in the share capital of AHL are listed on GEM
"Associated Corporation"	a corporation: 1 which is a subsidiary or holding company of the Company or a subsidiary of the holding company of the Company; or 2 (not being a subsidiary of the Company) in which the Company has an interest in the shares of a class comprised in its share capital exceeding in nominal value one-fifth of the nominal value of the issued share of that class
"Audit Committee"	the audit committee of the Company
"Auditor"	the auditor of the Company
"Australia"	the Commonwealth of Australia
"BEL"	Best Eastern Limited, a company incorporated in BVI with limited liability
"Board"	the board of Directors (not applicable to Main Board)
"Brazil"	The Federative Republic of Brazil
"BSPL"	Back Support Properties Limited, a company incorporated in BVI with limited liability
"Business Day"	any day (excluding Saturday and Sunday) on which licensed banks are generally open for business in Hong Kong
"BVI"	the British Virgin Islands
"Bye-law"	the bye-laws of the Company
"CA 1981"	the Companies Act 1981 of Bermuda
"CDIBDR"	the Companies (Disclosure of Information about Benefits of Directors) Regulation (Chapter 622G of the laws of Hong Kong)
"CGMA"	Chartered Global Management Accountant

"Chief Executive"	a person who either alone or together with one or more other persons is or will be responsible under the immediate authority of the Board for the conduct of the business of the Company
"CIMA"	Chartered Institute of Management Accountants
"Close Associate"	has the meaning ascribed thereto in the GEM Listing Rules
"CNMS"	customer network management system
"CO"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended from time to time
"Code"	the code provision of the Corporate Governance Code set out in Appendix 15 of the GEM Listing Rules
"Company"	Vodatel Networks Holdings Limited
"Company Secretary"	the company secretary of the Company
"Compliance Officer"	the compliance officer of the Company
"CUM"	City University of Macau
"Date of Grant"	in respect of an Option and unless otherwise specified in the letter of grant, the Business Day on which the Board resolves to make an Offer to a Participant, whether or not the Offer is subject to Members' approval on the terms of the Scheme
"Director"	the director of the Company
"EBITDA"	earnings before interest, tax, depreciation and amortisation
"ERL"	Eve Resources Limited, a company incorporated in BVI with limited liability
"ESG"	environmental, social and governance
"Exchange"	The Stock Exchange of Hong Kong Limited, a company incorporated in Hong Kong with limited liability
"Functional Currency"	the currency of the primary economic environment in which an entity operates
"FVOCI"	fair value through OCI
"GEM"	GEM operated by the Exchange
"GEM Listing Rules" or "we"	the Rules Governing the Listing of Securities on GEM made by the Exchange from time to time

Definitions

"Grantee"	any Participant who accepts an Offer in accordance with the terms of the Scheme, or (where the context so permits) any person who is entitled to any such Option in consequence of the death of the original Grantee, or the legal personal representative of such person
"Group" or "Vodatel" or "we"	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$0.001 each in the share capital of GTGIL
"GVDL"	廣州市愛達利發展有限公司, details of which can be referred to in Note 10 to the financial statements
"GZIC"	廣州市圖文資訊有限公司, details of which can be referred to in Note 10 to the financial statements
"HK$"	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)
"HKU"	The University of Hong Kong, established under the University of Hong Kong Ordinance (Chapter 1053 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, the Hong Kong Institute of Chartered Secretaries, The Stock Exchange of Hong Kong Limited, Tidestone Science and Technology (Hong Kong) Company Limited and the University of Hong Kong)
"JU"	Jinan University
"KPI"	key performance indicator

"Latest Practicable Date"	19th March 2018, being the latest practicable date prior to the printing of this report for ascertaining certain information contained herein
"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, details of which can be referred to in Note 10 to the financial statements
"Member"	the holder of the Shares
"MOP"	Patacas, the lawful currency of Macao
"Nomination Committee"	the nomination committee of the Company
"OCI"	other comprehensive income
"Offer"	the offer of the grant of an Option under the Scheme
"OHHL"	Ocean Hope Holdings Limited, a company incorporated in BVI with limited liability
"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 and for the time subsisting
"Participant"	Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters and service providers of any member of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group
"PRC"	The People's Republic of China
"Remuneration Committee"	the remuneration committee of the Company
"RMB"	Renminbi, the lawful currency of Mainland China

Definitions

"Scheme"	the share option scheme approved by the Members at the AGM on 22nd June 2012
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
"Share"	ordinary share of HK$0.10 each in the share capital of the Company (not applicable to GTGIL Share)
"STL"	Source Tech Limited, details of which can be referred to in Note 11 to the financial statements
"Subscription Price"	the price per Share at which a Grantee may subscribe for Shares on the exercise of an Option under the Scheme
"Substantial Shareholder"	a person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company
"Timor-Leste"	The Democratic Republic of Timor-Leste
"TSTJX"	泰思通軟件(江西)有限公司, details of which can be referred to in Note 10 to the financial statements
"TSTSH"	泰思通軟件(上海)有限公司, details of which can be referred to in Note 10 to the financial statements
"TTSA"	Timor Telecom, S.A., a company incorporated in Timor-Leste with limited liability
"UM"	University of Macau
"US$"	United States Dollar, the lawful currency of USA
"USA"	The United States of America
"VHL"	Vodatel Holdings Limited, details of which can be referred to in Note 10 to the financial statements
"Year"	the year ended 31st December 2017
"Zetronic"	Zetronic Communications (Macau) Limited, a company incorporated in Macao with limited liability
"ZHMSDL"	Zhuhai MegaSoft Software Development Co. Ltd., details of which can be referred to in Note 10 to the financial statements