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Telecom Service One Holdings Limited

電訊首科控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3997)

CONTINUING CONNECTED TRANSACTIONS

TRANSACTIONS WITH TDHL GROUP

On 28 March 2024, TSO entered into the separate individual agreements for 2024/25 with TDD, TDS, TSN and OIL in respect of the (a) provision of repair and refurbishment services for pagers by TSO to TDD; (b) provision of logistic services to TSO by TSN; (c) provision of grading and refurbishment services for used mobile phones by TSO to TDS; and (d) leasing of a property by OIL to TSO, respectively for a term of one year commencing from 1 April 2024 and expiring on 31 March 2025. The annual caps for the year ending 31 March 2025 for the above transactions with TDHL Group is fixed to HK\$3,836,000.

TDD, TDS, TSN and OIL are wholly-owned subsidiaries of TDHL. TDHL is indirectly owned by the Cheung Family Trust as to 54.49%, and the Cheung Family Trust indirectly holds 51.43% of the issued share capital of the Company. As such, each of TDD, TDS, TSN and OIL is a connected person of the Company under the Listing Rules. Accordingly, the transactions with TDHL Group constitute continuing connected transactions for the Company.

For the purpose of Rules 14A.81 and 14A.82 of the Listing Rules, the above-mentioned transactions with TDHL Group under the service/tenancy agreements have been aggregated. As one of the applicable percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules, in respect of the aggregate annual fee of the service/tenancy agreements are, on an annual basis, more than 5% but less than 25% and the aggregate annual fee is less than HK\$10,000,000, the transactions under the service/tenancy agreements with TDHL Group are exempted from the circular and independent shareholders' approval requirements but are subject to the announcement, annual review and reporting requirements under Chapter 14A of the Listing Rules.

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(a) *Provision of repair and refurbishment services for pagers by TSO to TDD*

TSO has been providing repair and refurbishment services for pagers to TDD. The service fees charged by TSO shall be fair and reasonable and shall be based on normal commercial terms and on an arm's length basis. The service fees are calculated on a "per device" basis and are determined by TSO and TDD on a cost-plus basis. TSO estimated the cost primarily comprising (i) the labour costs and overhead costs with reference to the complexity and time of work processes required in the repair and refurbishment; (ii) the number of work orders; (iii) the number of staff required and their salaries and (iv) the rental and overhead of the requested work space in the relevant workshops and service centre. After arriving at an estimated cost, TSO added a mark-up in the range of the prevailing markups charged by TSO to independent third parties for comparable repair and refurbishment services.

The historical amounts for the aggregate repair and refurbishment services fees paid by TDD to TSO for the previous years were set out below: -

	<i>HK\$</i>
Year ended 31 March 2021	1,162,000
Year ended 31 March 2022	987,000
Year ended 31 March 2023	742,000
For the nine months ended 31 December 2023	423,000

(b) *Provision of logistic services to TSO by TSN*

TSN has been providing logistic services for delivery of goods (for example, defective devices for repair and refurbishment) between the office, service centers and collection points of TSO. The fees charged by TSN are on a "per delivery" and "quantity of goods" basis. The Group will get quotations from no less than two popular independent logistics services providers of the same type of services as reference when considering the charging rate.

The historical amounts for the logistic services fees paid by TSO to TSN for the previous years were set out below: -

	<i>HK\$</i>
Year ended 31 March 2021	265,000
Year ended 31 March 2022	399,000
Year ended 31 March 2023	905,000
For the nine months ended 31 December 2023	825,000

(c) *Provision of grading and refurbishment services for used mobile phones by TSO to TDS*

TSO has been providing grading and refurbishment services for used mobile phones trade in by TDS. The service fees shall be determined at arm's length negotiation between the parties on a cost-plus basis and are calculated on a "per mobile phone" basis. TSO estimated the cost primarily comprising (i) the labour costs and overhead costs, with reference to the complexity and time of work processes required in the repair and refurbishment; (ii) the number of work orders; (iii) the number of staff required and their salaries and (iv) the rental and overhead of the requested work space in the relevant workshops and service centre. After arriving at an estimated cost, TSO added a markup in the range of the then prevailing mark-ups charged by TSO to independent third parties for comparable grading and refurbishment services.

The historical amounts for grading and refurbishment services fees paid by TDS to TSO for the previous years were set out below: -

	<i>HK\$</i>
Year ended 31 March 2021	515,000
Year ended 31 March 2022	104,000
Year ended 31 March 2023	82,000
For the nine months ended 31 December 2023	56,000

(d) *Leasing of a property by OIL to TSO*

OIL as landlord will continue to lease a property to TSO as repair and refurbishment services centre for a term of one year commencing from 1 April 2024 and expiring on 31 March 2025. The rental was determined with reference to the prevailing market rent of comparable properties in nearby location. The rental fee shall be determined at arm's length negotiation between the parties on a cost-plus basis and are calculated with reference to the estimated labour and overhead costs to be incurred by OIL to maintain the building management services. TSO paid the monthly rental in accordance with the tenancy agreement and in the same manner as the tenancy agreement with independent third parties.

During the term of the rental period, the parties shall provide reasonable estimates of the transaction amount (including total rental amount involved in the leases entered into under the tenancy agreement each year (if applicable)) for the following year on the basis of the properties supply plan to be agreed between the parties at the same time. The estimated rent shall be determined by both parties through negotiation by reference to the prevailing market rates of comparable properties in the vicinity of the leased property.

The principle terms of the tenancy are set out below:

Address	Tenant	Landlord	Usage	Term	Monthly rent HK\$
8/F, Telecom Digital Tower, 58 Tsun Yip Street, Kwun Tong, Kowloon	TSO	OIL	Repair centre	1 April 2024 to 31 March 2025	161,304

Reasons and benefits of entering into the services/tenancy agreements with TDHL Group

TDD is a paging operator and will provide pagers to its customers, therefore, TDD appointed TSO to provide repair and refurbishment services for pagers to TDD.

TDS has the services for trade-in used mobile phones, therefore, TDS appointed TSO to provide grading and refurbishment services for those used mobile phones.

TSN has a vehicle fleet to provide logistic services. TSO is required to collect defective devices and deliver repaired devices between office, service centres and collection points. Therefore, TSO appointed TSN to provide logistic services.

The Property would be rented by OIL to TSO for the use as repair and refurbishment services centre. TSO considers that the property location is suitable for the business operation.

The principal activities of TSO are the provision of repair and refurbishment services for mobile phones and other personal electronic products as well as the sales of related accessories. Therefore, it is in the normal and ordinary course of business of TSO to continue and /or provide the services with TDHL Group.

The terms of the services/tenancy agreements for 2024/25 with TDHL Group are arrived at after arm's length negotiation and are on normal commercial terms. The Directors (except the Cheung Brothers who have material interest in the services/tenancy agreements for 2024/25 with TDHL Group and who abstained from participating in the approval of the relevant Board resolutions due to conflict of interests), including the independent non-executive Directors, are of the view that the entering into the services/tenancy agreements for 2024/25 with TDHL Group are in the ordinary and usual course of business of the Group, and that the services/tenancy agreements for 2024/25 with TDHL Group including the aggregate annual caps for the transactions with TDHL Group are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Implications under the Listing Rules

TDHL is indirectly owned by the Cheung Family Trust as to 54.49% and the Cheung Family Trust indirectly holds 51.43% of the issued share capital of the Company. Therefore, TDHL is a connected person of the Company under the Listing Rules.

For the purpose of Rules 14A.81 and 14A.82 of the Listing Rules, the above-mentioned transactions with TDHL Group under the service/tenancy agreements have been aggregated. As one of the applicable percentage ratios (other than the profits ratio) under Chapter 14A of the Listing Rules, in respect of the aggregate annual fee of the service/tenancy agreements are, on an annual basis, more than 5% but less than 25% and the aggregate annual fee is less than HK\$10,000,000, the transactions under the service/tenancy agreements with TDHL Group are exempted from the circular and independent shareholders' approval requirements but are subject to the announcement, annual review and reporting requirements under Chapter 14A of the Listing Rules.

PRICING POLICY AND MECHANISMS IN RELATION TO THE CONTINUING CONNECTED TRANSACTIONS

Under the pricing policy of the Group in relation to continuing connected transactions, the Group shall determine, review and evaluate the amounts payable/receivable under the respective continuing connected transactions with TDHL Group with reference to the rates quoted by or to other independent third parties of comparable goods or services, in order to ensure that the amounts under such transactions are determined and conducted on normal commercial terms. Where it is impracticable to refer to the rates offered by or to independent third parties for comparable goods or services, the Group shall take into consideration the specifications of the goods or services, cost structure, profit margin, transaction amount, market condition and past performance of historical transactions between the Group and the respective connected persons in determining the rate for the amounts payable/receivable for the goods or services contemplated under for the respective continuing connected transactions with TDHL Group. In such circumstance, if the Group provides or acquires such goods or services to or from independent third parties in the future, the above-mentioned methods, procedures and considerations for determining the price and transaction terms shall be also applicable to such transactions with independent third parties, so that the continuing connected transactions will still be conducted on normal commercial terms and will not be prejudicial to the interests of the Company and the shareholders as a whole.

INTERNAL CONTROL PROCEDURES

The abovementioned amount will be submitted to the independent non-executive Directors for their annual review on the pricing so as to ensure its fairness and reasonableness. The Directors consider such methods and procedures detailed above can ensure that the transactions will be conducted on normal commercial terms and will not prejudice the interests of the Company and its Shareholders.

In order to ensure the effectiveness of the control procedures and that the transactions are in fact conducted on normal commercial terms and the transaction amounts do not exceed annual caps, the Company adopts the following mechanism:

- project managers are designated to collect the market rate from transactions between the Group and the independent third parties or public domain by conducting online research and/or obtaining quotations from independent third parties from time to time;
- the accounting manager of the Company is designated to check whether the transaction amounts recorded in the accounting system of the Company are consistent with the pricing mechanism monthly;
- in order to ensure that the transaction amounts do not exceed annual caps, the accounting manager is designated and responsible to review and check in the second week of each month the aggregate transaction amounts of continuing connected transactions in the preceding months during the financial year. When the aggregate transaction amounts exceeded 80% of the annual caps, the accounting manager will liaise with the project managers to consider if revision of annual caps is required and appropriate actions shall be taken accordingly;
- the independent non-executive Directors will conduct an annual review of the implementation of the continuing connected transactions to confirm that such transactions have been entered into in the ordinary and usual course of business of the Group, on normal commercial terms or better and the terms are fair and reasonable and in the interests of the Company and its Shareholders as a whole; and

- the Company’s external auditors will conduct an annual review on the continuing connected transactions.

GENERAL INFORMATION

The Company is listed on Main Board of the Stock Exchange and is principally engaged in investment holding. The principal activities of the Group (including TSO) are the provision of repair and refurbishment services for mobile phones and other personal electronic products as well as the sales of related accessories.

TDHL is listed on Main Board of the Stock Exchange. TDHL Group (including TDD, TDS, TSN and OIL) is principally engaged in the telecommunications and related business in Hong Kong, including (i) retail sales of mobile phones and other consumer goods and related services; (ii) distribution of mobile phones and related services; and (iii) provision of operation services to Sun Mobile Limited, an associate owned as to 40% by the Group and as to 60% by HKT Limited.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	board of the Directors
“Cheung Brothers”	Messrs. CHEUNG King Shek, CHEUNG King Shan, CHEUNG King Chuen Bobby and CHEUNG King Fung Sunny
“Cheung Family Trust”	a discretionary trust established for the benefit of the Cheung Brothers and their family members
“Company”	Telecom Service One Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on Main Board of the Stock Exchange (Stock Code: 3997)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the rules governing the listing of securities on the Stock Exchange

“OIL”	Onbo International Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of TDHL, which is indirectly owned by the Cheung Family Trust as to 54.49% which indirectly holds 51.43% of the shares of the Company in issue, and thus a connected person of the Company
“Property”	8/F, Telecom Digital Tower, 58 Tsun Yip Street, Kwun Tong, Kowloon
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“TDD”	Telecom Digital Data Limited, a company incorporated in Hong Kong with limited liability, and wholly-owned by TDHL, which is indirectly owned by the Cheung Family Trust as to 54.49% which indirectly holds 51.43% of the shares of the Company in issue, and thus a connected person of the Company
“TDHL”	Telecom Digital Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on Main Board of the Stock Exchange (Stock Code: 6033)
“TDHL Group”	TDHL and its subsidiaries
“TDS”	Telecom Digital Services Limited, a company incorporated in Hong Kong with limited liability, and wholly-owned by TDHL, which is indirectly owned by the Cheung Family Trust as to 54.49% which indirectly holds 51.43% of the shares of the Company in issue, and thus a connected person of the Company
“TSN”	Telecom Service Network Limited, a company incorporated in Hong Kong with limited liability, and wholly-owned by TDHL, which is indirectly owned by the Cheung Family Trust as to 54.49% which indirectly holds 51.43% of the shares of the Company in issue, and thus a connected person of the Company
“TSO”	Telecom Service One Limited, a company incorporated in Hong Kong with limited liability and wholly-owned by the Company
“%”	per cent.

Certain amounts and percentage figures included in this announcement have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

By Order of the Board
Telecom Service One Holdings Limited
CHEUNG King Shek
Chairman

Hong Kong, 28 March 2024

As at the date of this announcement, chairman of the Company and non-executive Director is Mr. CHEUNG King Shek; chief executive officer of the Company and executive Director is Mr. CHEUNG King Fung Sunny; non-executive Directors are Mr. CHEUNG King Shan and Mr. CHEUNG King Chuen Bobby; and independent non-executive Directors are Mr. FONG Ping, Ms. KWOK Yuen Man Marisa and Mr. TSO Ka Yi.

The English text of this announcement shall prevail over the Chinese text in case of inconsistencies.