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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)

**SUPPLEMENTAL ANNOUNCEMENT
CONTINUING CONNECTED TRANSACTIONS**

Reference is made to the announcement of Telecom Service One Holdings Limited (the “Company”) dated 1 April 2021 (the “Announcement”) in relation to the transactions with TDHL Group. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

In addition to the information disclosed in the Announcement, the Company would like to provide further details regarding the pricing policy and mechanisms in relation to the respective continuing connected transactions with TDHL Group.

Under the pricing policy of the Group in relation to continuing connected transactions, the Group shall determine, review and evaluate the amounts payable 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 for the goods or services contemplated under 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 abovementioned 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.

Specific pricing mechanism for each of the continuing connected transactions of the Group is detailed below.

Pricing policy and mechanisms in relation to the continuing connected transactions

(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 since 2013. 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. The Group 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, the Group added a mark-up in the range of the then prevailing mark-ups charged by TSO to independent third parties for comparable repair and refurbishment services.

(b) Consignment of accessories for mobile phones and personal electronic products of TSO by TDS

TDS has allowed TSO to sell the accessories for mobile phones and personal electronic products of certain brands at retail shops of TDHL Group on a consignment basis in consideration of a consignment fee. The consignment fee, which is calculated on a fixed percentage of the selling prices of the consigned goods, shall be paid by TSO to TDS for the consignment arrangement. Such consignment fee shall be determined at arm's length negotiation between TSO and TDS after taking reference to the consignment fees, which are also calculated on fixed percentages of the selling prices of the consigned goods, charged by the TDHL Group to independent third parties which sell their comparable consigned goods on the online platform of the TDHL Group; and if there are no comparable consigned goods, the gross profit margins of the sales of comparable products by the TDHL Group on its online shopping platform would be taken.

(c) 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" basis. The Group will consult with no less than two popular independent logistics services providers for quotations and market transaction prices of the same type of services.

(d) Provision of repair and refurbishment services for a brand of mobile phones by TSO to D1

TSO has been providing repair and refurbishment services for a brand of mobile phones to D1 since 1 April 2019. 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. The Group 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, the Group added a mark-up in the range of the then prevailing mark-ups charged by TSO to independent third parties for comparable repair and refurbishment services.

(e) 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 since 1 November 2019. 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. The Group 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, the Group added a mark-up in the range of the then prevailing mark-ups charged by TSO to independent third parties for comparable grading and refurbishment services.

Internal control procedures

The abovementioned fees 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 chief financial officer 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.

Save as stated above, all other information set out in the Announcement remains unchanged.

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

Hong Kong, 26 April 2021

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.