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Telecom Service One

# 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 on Main Board: 3997)**
**(Stock Code on GEM Board: 8145)**

## TRANSFER OF LISTING FROM THE GEM TO THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

**Financial adviser to the Company**

Innovax Capital

**Innovax Capital Limited**

On 17 August 2017, an application was made by the Company to the Stock Exchange for the transfer of listing from GEM to the Main Board, and such application was subsequently renewed on 20 February 2018. The Company has applied for the listing of and permission to deal in (i) 128,182,000 Shares in issue, and (ii) the 2,160,000 Shares which may be issued upon the exercise of the outstanding options which were granted under the Share Option Scheme, on the Main Board by way of transfer of the listing from GEM to the Main Board.

The approval-in-principle has been granted by the Stock Exchange on 16 March 2018 for the Shares to be listed on the Main Board and de-listed from GEM. The last day of dealings in the Shares on GEM (Stock code: 8145) will be 26 March 2018. Dealings in the Shares on the Main Board (Stock code: 3997) will commence at 9:00 a.m. on 27 March 2018. All pre-conditions for the Transfer of Listing have, insofar as applicable, been fulfilled in relation to the Company and the Shares.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes and will not involve any transfer or exchange of the existing share certificates. No change will be made to the English and Chinese stock short names of the Company, the existing share certificates, the board lot size, the trading currency of the Shares and the share registrars and transfer offices of the Company following the Transfer of Listing.

Reference is made to the announcements issued by the Company dated 17 August 2017 and 20 February 2018 in relation to the formal application submitted to the Stock Exchange for the Transfer of Listing pursuant to the relevant provisions of the GEM Listing Rules and Main Board Listing Rules.

## TRANSFER OF LISTING OF THE SHARES FROM GEM TO THE MAIN BOARD

On 17 August 2017, an application was made by the Company to the Stock Exchange for the transfer of listing from GEM to the Main Board, and such application was subsequently renewed on 20 February 2018.

The Company has applied for the listing of and permission to deal in (i) 128,182,000 Shares in issue, and (ii) the 2,160,000 Shares which may be issued upon the exercise of the outstanding options which were granted under the Share Option Scheme, on the Main Board by way of transfer of the listing from GEM to the Main Board. The approval-in-principle has been granted by the Stock Exchange on 16 March 2018 for the Shares to be listed on the Main Board and to be de-listed from GEM.

The Board confirms that all pre-conditions for the Transfer of Listing have, insofar as applicable, been fulfilled in relation to the Company and the Shares as at the date of this announcement.

## REASONS FOR THE TRANSFER OF LISTING

The Company has been listed and traded on GEM since 30 May 2013. The Group mainly provides repair and refurbishment services for mobile phones and other personal electronic products as well as sale of related accessories.

The Group is one of the leading mobile phones repair service providers in Hong Kong, with an operating history since 1999. The Board believes that the Transfer of Listing will enhance the profile of the Group, strengthen its recognition among public investors and improve the trading liquidity of the Shares. The Board also considers that the listing of the Shares on the Main Board will be beneficial to the future growth, financing flexibility and business development of the Group.

As at the date of this announcement, the Board has no immediate plans to change the nature of the business of the Group following the Transfer of Listing. Save as disclosed above, the Transfer of Listing will not involve any issue of new Shares by the Company.

## DEALINGS IN THE SHARES ON THE MAIN BOARD

The Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in the CCASS with effect from 30 May 2013, the date on which the Shares were first listed on GEM. Subject to the continued compliance with the stock admission requirements of HKSCC, the Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the Shares on the Main Board commence, and that all activities under CCASS are subject to the General Rules of the CCASS and CCASS Operational Procedures in effect from time to time.

The last day of dealings in the Shares on GEM (Stock code: 8145) will be 26 March 2018. Dealings in the Shares on the Main Board (Stock code: 3997) will commence at 9:00 a.m. on 27 March 2018.

The Transfer of Listing will have no effect on the existing share certificates in respect of the Shares which will continue to be good evidence of legal title and be valid for trading, settlement and registration purposes and will not involve any transfer or exchange of the existing share certificates. Currently, the Shares are traded in a board lot of 2,000 Shares each and are traded in Hong Kong dollars. The principal share registrar and transfer office of the Company in the Cayman Islands is Estera Trust (Cayman) Limited and the Hong Kong branch share registrar and transfer office of the Company is Union Registrars Limited. No change will be made to the English and Chinese stock short names of the Company, the existing share certificates, the board lot size, the trading currency of the Shares and the abovementioned share registrars and transfer offices of the Company following the Transfer of Listing.

## SHARE OPTION SCHEME

The Share Option Scheme was adopted by the Company on 2 May 2013. The Share Option Scheme will remain effective following the Transfer of Listing subject to certain immaterial amendments to the Share Option Scheme and will be implemented in full compliance with the requirements of Chapter 17 of the Main Board Listing Rules.

Pursuant to the Share Option Scheme, the Board may, at its discretion, grant options to eligible participants (being Directors and employees of the Group) entitling them to subscribe for Shares. The total number of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. As at the date of this announcement, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 2,160,000, representing 1.69% of the Shares in issue at that date. The listing of the Shares to be issued pursuant to the Share Option Scheme will also be transferred to the Main Board.

## GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

Pursuant to Rule 9A.12 of the Main Board Listing Rules, the general mandates granted by the Shareholders at the annual general meeting of the Company held on 4 September 2017 to the Directors to allot and issue new Shares and repurchase Shares will continue to be valid and remain in effect until the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law of the Cayman Islands to be held; or

(c) the date on which the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to the directors of the Company.

## PUBLIC FLOAT

The Directors confirm that not less than 25% of the total issued share capital of the Company was held by the public (as defined in the Main Board Listing Rules) as at the date of this announcement. Accordingly, the minimum 25% public float requirement has been maintained in compliance with Rule 8.08 of the Main Board Listing Rules.

## COMPETING BUSINESS

As at the date of this announcement, none of the executive Directors or Controlling Shareholders or their respective close associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to Rules 8.10(1) and 8.10(2) of the Main Board Listing Rules.

## FINANCIAL INDEPENDENCE

The Group has an independent financial system and makes financial decisions according to its own business needs. There is no financial assistance, guarantee and/or security provided by the Controlling Shareholders and their respective associates for the Group since the listing of the Shares on GEM and up to the date of this announcement. The Directors believe that the Company is capable of obtaining financing from third parties without reliance on the Controlling Shareholders.

## PUBLICATION OF THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31 DECEMBER 2017

The third quarterly results of the Company for the nine months ended 31 December 2017 were published. Please refer to the third quarterly results announcement and third quarterly report of the Company for the nine months ended 31 December 2017 published respectively on 6 February 2018 and 12 February 2018 for details.

## PUBLICATION OF RESULTS

Upon the Transfer of Listing, the Company will cease the practice of reporting financial results on a quarterly basis and will follow the relevant requirements of the Main Board Listing Rules, which include publishing its interim results and annual results within 2 months and 3 months from the end of the relevant periods or financial year ends respectively.

## SCOPE OF THE GROUP'S BUSINESS

The Group mainly provides repair and refurbishment services for mobile phones and other personal electronic products. TSO, the operating subsidiary of the Company, is appointed by corporate customers comprising manufacturers of mobile phones and personal electronic products, telecommunication service provider and global services companies as a non-exclusive authorised service provider to provide repair and refurbishment services for such products.

### Repair and refurbishment business

Repair works which can be completed within a couple of hours are performed at the service centres operated by the Group so that the end users may collect the repaired devices within the same day. In addition, the Group has a central repair and refurbishment centre in Kwai Chung, Hong Kong which enables the Group to carry out more complicated repair and refurbishment assignments with a turnaround time of more than one or two days at the centre.

As at the Latest Practicable Date, the Group operates seven service centres in Hong Kong and one service centre in Macau.

*Operation and revenue models*

The existing operation and revenue models of the Group regarding the business arrangements with its corporate customers are summarised in the table below:

| | Operation model | Revenue model | Arrangement on spare parts and components |
|---|---|---|---|
| 1. | *No provision of service centre*<br><br>• The corporate customers do not require the Group to operate any customer service centres.<br><br>• Faulty devices were delivered to the Group's central repair and refurbishment centre in Kwai Chung for repair and refurbishment. | *Party responsible to pay repair fee*<br><br>The corporate customer is responsible to pay the repair fee. | No spare parts are required as only refurbishment works are provided by the Group. |
| 2. | *No provision of service centre*<br><br>Please refer to the above. | *Party responsible to pay repair fee*<br><br>The corporate customers or the retailers are responsible to pay the repair fee. | The spare parts and components are purchased by the Group from the corporate customers or their designated suppliers. |

| | Operation model | Revenue model | Arrangement on spare parts and components |
|---|---|---|---|
| 3. | *Provision of service centres*<br><br>● The corporate customers require the Group to operate customer service centres. End users can leave their faulty devices or collect the repaired devices at the customer service centres. Repair works are generally performed at the customer service centres. | *Party responsible to pay repair fee*<br><br>In-warranty works — The corporate customer is responsible to pay the repair fee.<br><br>Out-of-warranty works — The Group receives repair fees from end users ("End Users Fees") and holds the same for the corporate customer. The corporate customer pays repair fees at rates different from End Users Fees to the Group ("TSO Fees") for the provision of its services. On a monthly basis, if the TSO Fees are larger than the End Users Fees, the corporate customer pays the net amount to the Group; if the End Users Fees are larger than the TSO Fees, the Group pays the net amount to the corporate customer. | Except for two corporate customers which require the Group to purchase spare parts and components for repair works from the corporate customers or their designated suppliers, spare parts and components are provided to the Group by the corporate customers at nil consideration. |
| 4. | *Provision of service centres*<br><br>Please refer to the above. | *Party responsible to pay repair fee*<br><br>In-warranty works — The corporate customer is responsible to pay the repair fee.<br><br>Out-of-warranty works — The end user is responsible to pay the repair fee. | Except for two corporate customers who provide the spare parts and components at nil consideration for in-warranty works, the spare parts and components are purchased by the Group from the corporate customers or their designated suppliers. |

The revenue (i.e. the repair and refurbishment fees) and gross profit received by the Group under the above models during the years ended 31 March 2015, 2016 and 2017 and the nine months ended 31 December 2016 and 2017 are set forth below:

| | **For the year ended 31 March** | | | **For the nine months ended 31 December** | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2016 | **2017** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| | | | | (unaudited) | **(unaudited)** |
| *Model 1* | | | | | |
| Revenue | 17,264 | 20,523 | 7,490 | 4,424 | **6,599** |
| Gross profit | 12,760 | 16,884 | 4,286 | 2,173 | **3,788** |
| Gross profit margin *(note)* | 73.9% | 82.3% | 57.2% | 49.1% | **57.4%** |
| *Model 2* | | | | | |
| Revenue | 9,716 | 11,951 | 7,566 | 6,157 | **5,324** |
| Gross profit | 2,036 | 3,325 | 3,007 | 2,302 | **2,712** |
| Gross profit margin *(note)* | 21.0% | 27.8% | 39.7% | 37.4% | **50.9%** |
| *Model 3* | | | | | |
| Revenue | 19,239 | 18,390 | 9,619 | 5,773 | **5,663** |
| Gross profit | 13,320 | 13,468 | 5,501 | 2,774 | **2,267** |
| Gross profit margin *(note)* | 69.2% | 73.2% | 57.2% | 48.1% | **40.0%** |
| *Model 4* | | | | | |
| Revenue | 69,062 | 55,158 | 67,998 | 47,737 | **57,412** |
| Gross profit | 24,701 | 9,806 | 29,402 | 19,726 | **30,746** |
| Gross profit margin *(note)* | 35.8% | 17.8% | 43.2% | 41.3% | **53.6%** |

*Note:*

The gross profit margin for each of the four operation models is set out in the above table for information purpose only. Such gross profit margin for each model is in fact only the weighted average of the gross profit margins for the various operations with the corporate customers under the same model and does not represent that the various operations with the corporate customers under the same model have similar gross profit margins.

- *Model 1*

  The Group's revenue for Model 1 for the year ended 31 March 2017 was approximately HK$7,490,000, representing a significant decrease of 63.5% over the previous year. The Group's gross profit of Model 1 for the year ended 31 March 2017 was approximately HK$4,286,000, representing a decrease of 74.6% over the previous year. Gross profit margin for Model 1 decreased by 25.1% to 57.2% from 82.3%. The decrease of revenue, gross profit and gross profit margin for the year ended 31 March 2017 was primarily because the corporate customer conducting business with the Group under this model had placed fewer work orders with the Group, resulting in less repair income as well as lower utilization rate of the technical staff team serving this corporate customer.

  The Group's revenue for Model 1 for the nine months ended 31 December 2017 was approximately HK$6,599,000 (2016: HK$4,424,000), representing a significant increase of 49.2% over the corresponding period in the previous year. The Group's gross profit of Model 1 for the nine months ended 31 December 2017 was approximately HK$3,788,000 (2016: HK$2,173,000), representing a significant increase of 74.3% over the corresponding period in the previous year. Gross profit margin for Model 1 increased by 8.3% to 57.4% from 49.1%. The increase of revenue, gross profit and gross profit margin for the nine months ended 31 December 2017 was primarily because the corporate customer conducting business with the Group under this model had placed a sufficient number of work orders with the Group, resulting in more repair income and better utilization rate of the technical staff team serving this corporate customer.

- *Model 2*

  The Group's revenue of Model 2 for the year ended 31 March 2017 was approximately HK$7,566,000, representing a decrease of 36.7% over the previous year. The Group's gross profit of Model 2 for the year ended 31 March 2017 was approximately HK$3,007,000, representing a decrease of 9.6% over the previous year. Gross profit margin of Model 2 increased by 11.9% to 39.7% from 27.8%. The decrease of revenue and gross profit for the year ended 31 March 2017 was primarily because a corporate customer conducting business with the Group under this model had downsized its operation in Hong Kong and had placed fewer work orders with the Group, which was partially set off by the increase of new work orders (for pre-loading of apps) placed by another corporate customer conducting business under this model. The increase in gross profit margin was primarily because such new work orders of pre-loading apps did not require the Group to purchase additional parts or require much more technicians to perform such work orders.

The Group's revenue for Model 2 for the nine months ended 31 December 2017 was approximately HK$5,324,000 (2016: HK$6,157,000), representing a decrease of 13.5% over the corresponding period in the previous year. The Group's gross profit of Model 2 for the nine months ended 31 December 2017 was approximately HK$2,712,000 (2016: HK$2,302,000), representing an increase of 17.8% over the corresponding period in the previous year. Gross profit margin for Model 2 increased by 13.5% to 50.9% from 37.4%. The decrease of revenue for the nine months ended 31 December 2017 was primarily because a corporate customer downsized its operation in Hong Kong. The increase in gross profit and gross profit margin was primarily because the pre-loading jobs orders of another corporate customer did not require the Group to incur parts cost or much more technicians to perform such work orders.

- *Model 3*

The Group's revenue of Model 3 for the year ended 31 March 2017 was approximately HK$9,619,000, representing a decrease of 47.7% over the previous year. The Group's gross profit of Model 3 for the year ended 31 March 2017 was approximately HK$5,501,000, representing a decrease of 59.2% over the previous year. Gross profit margin of Model 3 decreased by 16.0% to 57.2% from 73.2%. The said decrease in the Group's revenue was also mainly because (i) a corporate customer, which is a telecommunication service provider, had terminated its service contract with the Group as it ceased to provide repair services to its service subscribers; and (ii) TDD had placed fewer work orders with the Group as the number of subscribers for its paging services decreased. The decrease in gross profit margin was primarily because a corporate customer terminated its service contract with the Group as mentioned above and the work orders from such corporate customer and TDD used to generate higher gross profit margin.

The Group's revenue for Model 3 for the nine months ended 31 December 2017 was approximately HK$5,663,000 (2016: HK$5,773,000), representing a slight decrease of 1.9% over the corresponding period in the previous year. The Group's gross profit of Model 3 for the nine months ended 31 December 2017 was approximately HK$2,267,000 (2016: HK$2,774,000), representing a decrease of 18.3% over the corresponding period in the previous year. Gross profit margin for Model 3 decreased by 8.1% to 40.0% from 48.1%. The decrease of revenue, gross profit and gross profit margin was mainly due to the reduction of revenue generated from two corporate customers and the increase in labour cost.

- *Model 4*

  The Group's revenue of Model 4 for the year ended 31 March 2017 was approximately HK$67,998,000, representing an increase of 23.3% over the previous year. The Group's gross profit of Model 4 for the year ended 31 March 2017 was approximately HK$29,402,000, representing an increase of 199.8% over the previous year. Gross profit margin of Model 4 increased by 25.4% to 43.2% from 17.8%. The said increase in the Group's revenue, gross profit and gross profit margin was mainly because fewer work orders in respect of the products of a corporate customer conducting business with the Group under this model, which was the largest customer of the Group for the years ended 31 March 2015 and 2017, were placed with the Group in the year ended 31 March 2016, and the number of the relevant works orders for the year ended 31 March 2017 resumed to the number comparable to that for the year ended 31 March 2015.

  The Group's revenue for Model 4 for the nine months ended 31 December 2017 was approximately HK$57,412,000 (2016: HK$47,737,000), representing an increase of 20.3% over the corresponding period in the previous year. The Group's gross profit of Model 4 for the nine months ended 31 December 2017 was approximately HK$30,746,000 (2016: HK$19,726,000), representing a significant increase of 55.9% over the corresponding period in the previous year. Gross profit margin for Model 4 increased by 12.3% to 53.6% from 41.3%. The increase of revenue, gross profit and gross profit margin for the nine months ended 31 December 2017 was primarily because of the increase in revenue generated from a new corporate customer.

***Customers***

As at the Latest Practicable Date, TSO is appointed to provide repair and refurbishment services by sixteen corporate customers comprising:

- twelve global manufacturers of mobile phones;
- TDD, being a paging operator and a connected person of the Company;
- a video game company;
- two global services companies.

TSO is appointed by the corporate customers as a non-exclusive authorised service provider to provide repair and refurbishment services for mobile phones and other personal electronic products. The following table shows the duration of the customer contracts (if any) entered in to between the Group and the corporate customers:

| **Customers** | **Duration of contracts** |
|---|---|
| 4 Customers | No fixed term of contract. Either party can terminate with notice ranging from 30 days to 6 months. |
| 4 Customers | One year, expiry dates ranging from 14 April 2018 to 31 December 2018. |
| 3 Customers | One year, automatically renew year from year. Either party can terminated with a notice ranging from 60 days to 90 days. |
| 1 Customer | One year, automatically renew for up to two successive one-year terms. |
| 1 Customer | One year, shall be renewed for successive period of one year upon written consent. |
| 2 Customers | Two years, expiry dates on 15 July 2018 and 31 March 2019. |
| 1 Customer | 31 months, expiry date on 30 June 2020. |

*Service centres*

The following shows the change in number of service centres for the three years ended 31 March 2017 and the nine months ended 31 December 2017:

| | **For the year ended 31 March** | | | **For the nine months ended 31 December 2017 and up to the Latest Practicable Date** |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | |
| Number of service centres at the beginning of the year/period | 8 | 10 | 9 | 8 |
| Number of new service centres opened during the year/period | 2 | 1 | — | 1 |
| Number of service centres ceased operation during the year/period | — | 2 | 1 | 1 |
| Number of service centres as at year/period end | 10 | 9 | 8 | 8 |

In the year ended 31 March 2015, the Group opened one multi-brand service centre in Causeway Bay, Hong Kong, and one service centre serving a corporate customer in Macau.

In the year ended 31 March 2016, a corporate customer conducting business with the Group under Model 3 as mentioned in the sub-paragraph headed "Operation and revenue models" above terminated the service contract with the Group and the Group closed the service centre serving its subscribers. Moreover the Group closed another service centre in Kwai Fong, Hong Kong which served one corporate customer as such customer had placed fewer work orders with the Group. During the year, the Group open another multi-brand service centre in Central, Hong Kong.

In the year ended 31 March 2017, the Group closed one multi-brand service centre in Causeway Bay, Hong Kong because of the decrease in the work orders for those corporate customers requiring the Group to provide service centres.

For the nine months ended 31 December 2017 and up to the Latest Practicable Date, the Group closed its service centre in Shenzhen, the PRC. The Group also opened a service centre for a corporate customer as such customer had placed more work orders with the Group.

***Staff***

The staff of the Group consists of technicians providing repair services and customer service staff working at the service centres to provide customer service.

The following shows the change in number of technicians and customer service staff for the three years ended 31 March 2017 and the nine months ended 31 December 2017:

| | **As at 31 March** | | | **As at 31 December** |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | **2017** |
| Number of technicians | 90 | 88 | 70 | 66 |
| Number of customer service staff | 48 | 39 | 38 | 34 |
| Number of inventory management and operation administration staff | 36 | 25 | 22 | 21 |
| Number of operation management | 9 | 15 | 16 | 16 |
| Office administration and accounting staff | 7 | 9 | 8 | 8 |
| Number of employees employed on behalf of Customer E | 55 | 34 | 7 | 1 |
| Total | 245 | 210 | 161 | 146 |

In the year ended 31 March 2017, the number of employees of the Group decreased from 210 to 161 primarily because the Group ceased to provide management service to Customer E for managing their operation team in Hong Kong due to the downsizing of its operation in Hong Kong. The employees of that operation team were employed by the Group on behalf of Customer E and the relevant labour cost was reimbursed by Customer E. In addition, during the Track Record Period, the Group had streamlined its technician team and customer service team and optimised the arrangement of assigning their works, which also led to a decrease of the number of employees.

### Sale of accessories

In addition, the Group sources accessories for mobile phones and other personal electronic products such as mobile phone cases, screen protectors, bluetooth products, chargers, batteries, etc. for sale to corporate customers such as mobile phone manufacturers or in the customer service centres operated by it and the retail shops of TDS.

The table below sets out the breakdown of the Group's revenue during the three years ended 31 March 2017 and the nine months ended 31 December 2017 by the nature of income and the breakdown of the repair and refurbishment fees received by the Group during the said years by the type of personal electronic products repaired and refurbished.

| | For the year ended 31 March | | | | | | **For the nine months ended 31 December** | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2016 | | 2017 | | **2017 (unaudited)** | |
| | *HK$'000* | | *HK$'000* | | *HK$'000* | | ***HK$'000*** | |
| Repairing service income | | | | | | | | |
| Mobile phones, personal computers, tablet computers and portable media players | 106,936 | 84.6% | 94,229 | 76.9% | 84,626 | 80.3% | **70,360** | **91.6%** |
| Pagers and two way mobile data communication devices | 5,350 | 4.2% | 9,139 | 7.5% | 5,845 | 5.5% | **2,882** | **3.7%** |
| TV boxes | — | — | — | — | 185 | 0.2% | **639** | **0.8%** |
| Video game consoles | 2,995 | 2.4% | 2,654 | 2.2% | 2,017 | 1.9% | **1,117** | **1.5%** |
| Sale of accessories | 11,134 | 8.8% | 16,472 | 13.4% | 12,772 | 12.1% | **1,813** | **2.4%** |
| Total | 126,415 | 100% | 122,494 | 100% | 105,445 | 100% | **76,811** | **100%** |

## MAJOR CUSTOMERS AND SUPPLIERS

### Customers

For the three years ended 31 March 2017 and the nine months ended 31 December 2017, the percentage of revenue for the year attributable to the Group's five largest customers were approximately 55.0%, 47.9%, 50.9% and 65.7%, respectively. Revenue attributable to the Group's largest customer to the Group's revenue accounted for approximately 19.3%, 16.8%, 22.4% and 26.9% for each of the three years ended 31 March 2017 and the nine months ended 31 December 2017, respectively.

## For the year ended 31 March 2015

| Customers | Services/goods provided by our Group | Revenue attributable to the customer (HK$'000) and approximate % of our total revenue | Date of commencement of business relationship |
|---|---|---|---|
| Customer A *(Note 1)* | provision of in-warranty repair and refurbishing services for mobile phones, personal computers, tablet computers, portable media and other personal electronic products | 24,392 (19.3%) | July 2008 |
| Customer B *(Note 2)* | provision of grading services for their second-hand mobile phones | 17,264 (13.6%) | November 2012 |
| Customer C *(Note 3)* | provision of repair and refurbishment services | 10,880 (8.6%) | September 2010 (up to August 2015) |
| Customer D *(Note 4)* | provision of in-warranty repair and refurbishment services for mobile phones | 9,443 (7.5%) | December 2010 |
| Customer E *(Note 5)* | provision of repair and refurbishment services for mobile phones | 7,537 (6.0%) | July 2010 |

## For the year ended 31 March 2016

| Customers | Services/goods provided by our Group | Revenue attributable to the customer (HK$'000) and approximate % of our total revenue | Date of commencement of business relationship |
|---|---|---|---|
| Customer B *(Note 2)* | provision of grading services for their second-hand mobile phones | 20,522 (16.8%) | November 2012 |
| Customer A *(Note 1)* | provision of in-warranty repair and refurbishing services for mobile phones, personal computers, tablet computers, portable media and other personal electronic products | 10,786 (8.8%) | July 2008 |
| Sun Mobile | Sale of mobile phone accessories | 9,500 (7.8%) | April 2012 |
| TDD *(Note 6)* | provision of repair and refurbishment services for pagers and two-way mobile data communication devices | 9,119 (7.4%) | April 2006 |
| Customer E *(Note 5)* | provision of repair and refurbishment services for mobile phones | 8,722 (7.1%) | July 2010 |

## For the year ended 31 March 2017

| Customers | Services/goods provided by our Group | Revenue attributable to the customer (HK$'000) and approximate % of our total revenue | Date of commencement of business relationship |
|---|---|---|---|
| Customer A *(Note 1)* | provision of in-warranty repair and refurbishing services for mobile phones, personal computers, tablet computers, portable media and other personal electronic products | 23,591 (22.4%) | July 2008 |
| Sun Mobile | Sale of mobile phone accessories | 9,486 (9.0%) | April 2012 |
| Customer B *(Note 2)* | provision of grading services for their second-hand mobile phones | 7,431 (7.1%) | November 2012 |
| Customer D *(Note 4)* | provision of in-warranty repair and refurbishment services for mobile phones | 7,299 (6.9%) | December 2010 |
| TDD *(Note 6)* | provision of repair and refurbishment services for pagers and two-way mobile data communication devices | 5,820 (5.5%) | April 2006 |

## For the nine months ended 31 December 2017

| Customers | Services/goods provided by our Group | Revenue attributable to the customer (HK$'000) and approximate % of our total revenue | Date of commencement of business relationship |
|---|---|---|---|
| Customer A *(Note 1)* | provision of in-warranty repair and refurbishing services for mobile phones, personal computers, tablet computers, portable media and other personal electronic products | 20,661 (26.9%) | July 2008 |
| Customer G *(Note 8)* | provision of in-warranty repair and refurbishment services for mobile phones | 15,560 (20.3%) | September 2016 |
| Customer B *(Note 2)* | provision of grading services for their second-hand mobile phones | 6,599 (8.6%) | November 2012 |
| Customer F *(Note 7)* | provision of in-warranty repair and refurbishment services for mobile phones | 4,003 (5.2%) | December 2011 |
| Customer D *(Note 4)* | provision of in-warranty repair and refurbishment services for mobile phones | 3,585 (4.7%) | December 2010 |

*Notes:*

1. Customer A is the Hong Kong operation of a global enterprise which designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications. The global enterprise sells its products worldwide through its retail stores, online stores and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and value-added resellers. The global enterprise is listed on NASDAQ Stock Market and its net sales for the financial year ended 24 September 2016 amounted to approximately US$215.6 billion.

2. Customer B is the Hong Kong operation of a global services company which specialises in providing services including value-added distribution, supply chain solutions, handset protection and insurance, buy-back and trade-in solutions, and multi-channel retail solutions to mobile device manufacturers, wireless operators and retailers. Founded in Miami, Florida, in 1997, the global services company is ranked #58 on the Forbes List of America's Largest Private Companies in 2014. The global services company was acquired by a Japan-based global enterprise in 2014 which recorded net sales of 8.9 million yen in the financial year ended 31 March 2017.

3. Customer C is a leading mobile communications service provider and the only Hong Kong operator to own blocks of spectrum across the 900MHz, 1800MHz, 2100MHz, 2300MHz and 2600MHz bands. This customer is the mobile division of an established telecommunications operator listed on the Hong Kong Stock Exchange which recorded mobile business revenue of HK$8,332 million in the financial year ended 31 December 2016.

4. Customer D is a multinational mobile phone manufacturing company headquartered in Tokyo, Japan, and is a wholly owned subsidiary of another Tokyo-based global enterprise which is engaged in the production of audio, video, game, communications, key device and information technology products for both the consumer and professional markets. The global enterprise recorded sales and operating revenue of 7,603.3 billion yen for the financial year ended 31 March 2017.

5. Customer E was incorporated in Taiwan and is engaged in the design, manufacture and sale of smartphones. It is listed on the Taiwan Stock Exchange and its revenue for the year 2016 amounted to approximately NT$78.2 billion.

6. TDD, a connected person of the Company, engages in the trading of telecommunications products and provision of paging services, maintenance services and two-way wireless data services.

7. Customer F is the Hong Kong operation of a Korea-based company which manufactures and sells refrigerators, washing machines, vacuum cleaners, residential and commercial air conditioners, mobile communications equipment, TVs, monitors, and digital media products, LED, optics solutions, substrate materials, and automotive components. The company is listed on the Korea Stock Exchange with global sales amounting to KRW 55.37 trillion in the financial year ended 31 December 2016.

8. Customer G is the Hong Kong operation of a Korea-based company which operates three business divisions: consumer electronics (includes digital TVs, monitors, air conditioners and refrigerators), information technology & mobile communications (includes mobile phones, communication systems, and computers), and device solutions (includes products such as memory and system

large-scale integration in the semiconductor business, and liquid-crystal display and organic light-emitting diode panels in the display business). The company is listed on the Korea Stock Exchange with revenue amounting to approximately KRW 202 trillion in the financial year ended 31 December 2016.

## Suppliers

For the three years ended 31 March 2017 and the nine months ended 31 December 2017, the percentage of cost of parts and materials attributable to the Group's five largest suppliers were approximately 84.8%, 96.0%, 96.3% and 94.8%, respectively. The percentage of cost of parts and materials attributable to the Group's largest supplier for the three years ended 31 March 2017 and the nine months ended 31 December 2017 amounted to approximately 59.7%, 69.3%, 66.4% and 70.9%, respectively.

### For the year ended 31 March 2015

| Suppliers | Services provided to our Group | Cost of sales attributable to the supplier (HK$'000) and approximate % of our total cost of sales | Date of commencement of business relationship |
|---|---|---|---|
| Customer A | supply of spare parts of mobile phones, personal computers, tablet computers, portable media and other personal electronic products | 15,260 (59.7%) | July 2008 |
| Customer D | supply of spare parts of mobile phones | 2,970 (11.6%) | December 2010 |
| Supplier A *(Note 1)* | supply of mobile accessories | 1,860 (7.3%) | April 2013 |
| Supplier B *(Note 2)* | supply of mobile phone covers | 840 (3.3%) | April 2014 (up to March 2015) |
| Supplier C *(Note 3)* | supply of mobile accessories | 744 (2.9%) | August 2013 |

### For the year ended 31 March 2016

| Suppliers | Services provided to our Group | Cost of sales attributable to the supplier (HK$'000) and approximate % of our total cost of sales | Date of commencement of business relationship |
|---|---|---|---|
| Customer A | supply of spare parts of mobile phones, personal computers, tablet computers, portable media and other personal electronic products | 18,896 (69.3%) | July 2008 |
| Supplier A *(Note 1)* | supply of mobile accessories | 4,153 (15.3%) | April 2013 |
| Customer D | supply of spare parts of mobile phones | 2,462 (9.0%) | December 2010 |
| Supplier E *(Note 5)* | supply of mobile accessories | 448 (1.7%) | January 2016 |
| Supplier D *(Note 4)* | supply of mobile phones, portable media accessories | 196 (0.7%) | November 2015 |

### For the year ended 31 March 2017

| Suppliers | Services provided to our Group | Cost of sales attributable to the supplier (HK$'000) and approximate % of our total cost of sales | Date of commencement of business relationship |
|---|---|---|---|
| Customer A | supply of spare parts of mobile phones, personal computers, tablet computers, portable media and other personal electronic products | 14,122 (66.4%) | July 2008 |
| Supplier A *(Note 1)* | supply of mobile accessories | 2,702 (12.7%) | April 2013 |
| Customer D | supply of spare parts of mobile phones | 1,668 (7.8%) | December 2010 |
| Supplier E *(Note 5)* | supply of mobile accessories | 1,314 (6.2%) | January 2016 |
| Customer G | supply of spare parts of mobile phones | 694 (3.2%) | September 2016 |

### For the nine months ended 31 December 2017

| Suppliers | Services provided to our Group | Cost of sales attributable to the supplier (HK$'000) and approximate % of our total cost of sales | Date of commencement of business relationship |
|---|---|---|---|
| Customer A | supply of spare parts of mobile phones, personal computers, tablet computers, portable media and other personal electronic products | 8,446 (70.9%) | July 2008 |
| Customer G | supply of spare parts of mobile phones | 1,549 (13.0%) | September 2016 |
| Customer D | supply of spare parts of mobile phones | 852 (7.2%) | December 2010 |
| Supplier A *(Note 1)* | supply of mobile accessories | 233 (2.0%) | April 2013 |
| Supplier F *(Note 6)* | supply of spare parts of mobile phones | 208 (1.7%) | April 2017 |

*Notes:*

1. Supplier A is a manufacturer of mobile accessories which include power banks, external batteries, cables, electronic devices protection, etc.

2. Supplier B is a global enterprise which is principally engaged in personalization and customization of consumer electronic products such as cases for mobile phones and other electronic devices.

3. Supplier C is a manufacturer of accessories and decorative products.

4. Supplier D is a supplier of mobile phone accessories.

5. Supplier E is a manufacturer of mobile accessories.

6. Supplier F is a supplier of mobile phone accessories.

## COMPLIANCE MATTERS

Our Group has obtained all licences, permits, approvals and certificates necessary to conduct its business operations and has complied with all applicable laws, rules and regulations in all material respects since the Company's GEM Listing on 30 May 2013.

## USE OF PROCEEDS

The net proceeds from the Listing were approximately HK$14.9 million, which was based on the final placing price of HK$1.00 per Share and the actual expenses on the GEM Listing. As disclosed in the Prospectus, HK$13.4 million would be used for the acquisition of a commercial property in Hong Kong for use as a customer service centre. The balance of HK$1.5 million would be reserved as general working capital.

As at the Latest Practicable Date, the net proceeds of HK$13.4 million have not been utilised and are held by the Company in short-term deposits with licensed banks and authorised financial institutions in Hong Kong. The Company currently intends to apply the net proceeds in the manner as stated in the Prospectus.

The Company considered that in order to bring the greatest benefit to the Company and the Shareholders as a whole, the proposed acquisition shall be proceeded in a very cost-effective manner. However subsequent to the listing of the Shares on GEM in May 2013, the market of commercial properties in Hong Kong had a substantial increase in price, for example, the sale price of the units in Ginza Plaza (which was the target location the Group intended to acquire as disclosed in the Prospectus) in accordance with completed sale and purchase transactions was HK$10,230 per square feet in October 2014 and HK$13,860 per square feet in August 2017. According to the property market statistics published by the Rating and Valuation Department of the Hong Kong government, the overall price indices of private offices for 2013, 2014, 2015, 2016 and 2017 were approximately 410, 423, 449, 427 and 487, respectively.

Furthermore, as the Group used to operate service centres at Ginza Plaza, it intended to purchase a premises unit in Ginza Plaza. However, since the GEM Listing and during the Track Record Period, there were few units situated at Ginza Plaza which were available for sale, and those few units which had been available for sale were not of the size suitable for operation by the Group as service centres. Moreover some of the corporate customers of the Group changed their demand of the Group's services, and as a result, service centres of the Group opened and closed in the past years since the GEM Listing.

In light of the changing property market, few target properties available for sale as well as the changing service demand of the customers, the Company had considered that the proposed acquisition should not be proceeded in the past years including the Track Record Period.

The Board of Directors has studied the plan to use the proceeds, and considered that:

i. it is still beneficial to the Company to purchase a commercial property for use as a service centre;

ii. the unit intended to be acquired is expected to have a gross floor area of 1,800 to 2,500 square feet and cost approximately HK$24.9 million to HK$34.7 million based on the current prevailing market price, and the expected capital expenditures (excluding acquisition cost and mainly including stamp duty, agency commission and legal fee) are approximately HK$2.4 million to HK$3.3 million;

iii. the Group will expand its target list to include more commercial buildings situated at various prime commercial locations in Hong Kong; and

iv. the balance of the purchase price will be financed primarily by the Group's internal source of funding. If, after taking into account the finance costs, it is cost-effective to be financed by a mortgage loan, the acquisition will also be financed by the mortgage loan as the secondary source of funding.

## THE KEY FINANCIAL INFORMATION OF THE GROUP

The following table sets forth the selected financial information of the Group for the three years ended 31 March 2017 and the nine months ended 31 December 2017:

| | For the year ended 31 March | | | **For the nine months ended 31 December** |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | **2017** |
| | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| | | | | **(unaudited)** |
| Revenue | 126,415 | 122,494 | 105,445 | **76,811** |
| Cost of sales | (67,265) | (68,102) | (54,826) | **(36,155)** |
| Gross profit | 59,150 | 54,392 | 50,619 | **40,656** |
| Other income | 2,308 | 2,747 | 2,101 | **1,762** |
| Other operating expenses, net | (15,250) | (14,655) | (10,316) | **(7,333)** |
| Administrative expenses | (16,315) | (15,281) | (14,871) | **(10,375)** |
| Finance costs | (170) | (285) | (140) | **(1)** |
| Profit before tax | 29,723 | 26,918 | 27,393 | **24,709** |
| Income tax expense | (5,243) | (4,537) | (4,743) | **(4,230)** |
| Profit for the year/period | 24,480 | 22,381 | 22,650 | **20,479** |

- **Revenue**

The Group's revenue comprises repairing service income and income from sales of accessories. An analysis of the Group's revenue for the three years ended 31 March 2017 and the nine months ended 31 December 2017 is as follows:

| | For the year ended 31 March | | | For the nine months ended 31 December |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | **2017** |
| | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| | | | | **(unaudited)** |
| Repairing service income | 115,281 | 106,022 | 92,673 | **74,998** |
| Sales of accessories | 11,134 | 16,472 | 12,772 | **1,813** |
| Total | 126,415 | 122,494 | 105,445 | **76,811** |

The Group's revenue for the year ended 31 March 2015 was approximately HK$126,415,000 (2014: HK$94,292,000), representing an increase of approximately 34.1% over the previous year. The increase in the Group's revenue was mainly due to the increase in repair jobs and the higher revenue generated from the accessories business.

The Group's revenue for the year ended 31 March 2016 was approximately HK$122,494,000, representing a slight decrease of 3.1% over the previous year. The decrease in the Group's revenue was mainly due to:

i. the termination of service contract with Customer C, which is a telecommunication service provider in Hong Kong, in August 2015, where Customer C ceased to procure repair services for its subscribers;

ii. the decrease of work orders placed by a corporate customer, namely Customer A, which was the largest customer of the Group for the years ended 31 March 2015 and 2017.

The decrease was partially offset by the increase in work orders placed by a corporate customer, namely Customer B, and TDD as well as an increase in the sale of accessories.

The Group's revenue for the year ended 31 March 2017 was approximately HK$105,445,000, representing a decrease of approximately 13.9% over the previous year. The decrease in the Group's revenue was mainly due to the decrease in repair jobs and the volume of consignment sales.

The decrease in the Group's revenue for the year ended 31 March 2017 was primarily because:

i. the corporate customer conducting business with the Group under Model 1, i.e. Customer B, had placed fewer work orders with the Group, resulting in a decrease of repair income;

ii. a corporate customer conducting business with the Group under Model 2, i.e. Customer E, had downsized its operation in Hong Kong and had placed fewer work orders with the Group, which was partially set off by the increase of new work orders (for pre-loading of apps) placed by another corporate customer conducting business under this model;

iii. a corporate customer, i.e. Customer C, which is a telecommunication service provider, had terminated its service contract with the Group as it ceased to provide repair services to its subscribers; and

iv. TDD had placed fewer work orders with the Group as the number of subscribers for its paging services decreased.

The decrease was partially set off by the increase of work orders placed by Customer A.

The Group's revenue for the nine months ended 31 December 2017 was approximately HK$76,811,000 (2016: HK$76,840,000), representing a slight decrease of approximately 0.04% over the corresponding period of the previous year. The decrease in the Group's revenue was mainly attributable to the decrease in income from the sale of accessories and offset by the increase in repairing service income.

Repairing service income for the period was approximately HK$74,998,000 (2016: HK$64,091,000), representing an increase of approximately 17.0% over the corresponding period of the previous year. The increase in repairing service income was primarily as a result of the increase in job orders placed by a corporate customer, which started to engage the Group to provide repairing services in August 2016. Revenue from sales of accessories for the period decreased approximately 85.8% to approximately HK$1,813,000 as compared to HK$12,749,000 over the corresponding period of the previous year. The decrease was mainly due to the decrease in sales order from a corporate customer.

- **Cost of sales**

  The Group's cost of sales comprises mainly direct labour cost and parts cost. During the year ended 31 March 2015, cost of sales increased to approximately HK$67,265,000 (2014: HK$52,180,000), representing an increase of 28.9%. The increase in cost of sales was corresponded to the increase in revenue. The Group's cost of inventories sold was approximately HK$25,547,000 (2014: HK$19,103,000), representing an increase of approximately 33.7% from that of the previous year.

  During the year ended 31 March 2016, cost of sales slightly increased by approximately 1.2% to approximately HK$68,102,000 from approximately HK$67,265,000. The increase was mainly attributable to the increase in cost of inventories, which increased by approximately 6.7% to approximately HK$27,260,000 for the year ended 31 March 2016. The increase was primarily because the Group received more work orders which required the Group to purchase spare parts and components and such costs were not reimbursed. Direct labour cost for the year ended 31 March 2016 was approximately HK$40,836,000 (2015: HK$41,704,000).

  During the year ended 31 March 2017, cost of sales decreased by approximately 19.5% to approximately HK$54,826,000. The decrease in cost of sales was attributable to the decrease in both parts cost and labour cost. The Group's cost of inventories sold was approximately HK$21,277,000, representing a decrease of approximately 21.9% from that of the previous year. The decrease was because the Group received fewer work orders which required the Group to purchase spare parts and components and such costs were not reimbursed, and that some products have become obsolete and was returned. Direct labour cost for the year ended 31 March 2017 was approximately HK$33,549,000, representing a decrease of approximately 17.8%. The decrease was mainly due to the decrease in manpower. The Group ceased to provide management service to Customer E for managing their operation team in Hong Kong due to the downsizing of its operation in Hong Kong. The employees of that operation team were employed by the Group on behalf of Customer E and the relevant labour cost was reimbursed by Customer E.

  During the nine months ended 31 December 2017, cost of sales decreased to approximately HK$36,155,000 (2016: HK$41,441,000), representing a decrease of approximately 12.8%. The decrease in cost of sales was attributable to the decrease in both parts cost and labour cost. The Group's parts cost for the nine months ended 31 December 2017 was approximately HK$11,914,000 (2016: HK$15,996,000), representing a decrease of approximately 25.5%. The decrease was because the Group received fewer work orders which required the Group to purchase spare parts and components and such costs were not reimbursed. In addition, cost of accessories also decreased for the down-turn of accessories business. The Group's direct labour cost for the nine months ended 31 December 2017 was approximately HK$24,241,000 (2016: HK$25,445,000), representing a decrease of approximately 4.7%. The decrease was mainly due to the reduction of manpower.

- **Gross profit and gross profit margin**

  The Group's gross profit for the year ended 31 March 2015 was approximately HK$59,150,000 (2014: HK$42,112,000), representing an increase of approximately 40.5% over the previous year. Gross profit margin slightly increased by approximately 2.1% to approximately 46.8% from approximately 44.7%.

  The Group's gross profit for the year ended 31 March 2016 was approximately HK$54,392,000, representing a decrease of approximately 8.0% over the previous year. Gross profit margin slightly decreased by approximately 2.4% to approximately 44.4% from approximately 46.8%.

  The Group's gross profit for the year ended 31 March 2017 was approximately HK$50,619,000, representing a decrease of approximately 6.9% over the previous year. Gross profit margin increased by approximately 3.6% to approximately 48.0% from approximately 44.4%. Gross profit margin increased was mainly due to fewer work orders which required the Group to purchase spare parts and such costs were not reimbursed.

  The gross profit for the nine months ended 31 December 2017 was approximately HK$40,656,000 (2016: HK$35,399,000), representing an increase of approximately 14.9% over the corresponding period of previous year. Gross profit margin increased by approximately 6.8% to approximately 52.9% from approximately 46.1%. The increase in gross profit margin was primarily because of the increase in new work orders (for pre-loading of apps), such new work orders of pre-loading apps did not require the Group to purchase spare parts to perform such work orders.

- **Other income**

  Other income for the year ended 31 March 2015 was approximately HK$2,308,000 (2014: HK$3,580,000). Other income mainly contributed by management fee income, consignment goods handling income and bank interest income. The decrease in other income was mainly due to the waiver of an amount due to a related company in respect of the Group's acquisition of 100% of the equity interest in Telecom Service One (Macau) Limited occurred in the first quarter of the financial year ended 31 March 2014.

Other income for the year ended 31 March 2016 was approximately HK$2,747,000. Both the bank interest income and management fee income had recorded an increase during the year.

Other income for the year ended 31 March 2017 was approximately HK$2,101,000. The decrease for the year was mainly due to the decrease in management fee income from Customer D and the cessation in providing customers survey service for Customer D.

Other income for the nine months ended 31 December 2017 was approximately HK$1,762,000 (2016: HK$1,613,000), representing an increase of approximately 9.2%. The increase was mainly attributable to the increase in storage charge and a one-off special repair job assigned by a corporate customer.

- **Net operating expenses and administrative expenses**

Other operating expenses, net for the year ended 31 March 2015 were approximately HK$15,250,000 (2014: HK$14,257,000), representing an increase of approximately 7.0% over the previous year. The increase was mainly due to the following:

(i) Decrease in service centres management fee income from a former corporate customer due to the downsizing of business of that corporate customer since January 2013 and the cessation of business of the Group's service centre in Taiwan in November 2013;

(ii) Decrease in operating expenses due to the closure of Taiwan service centre and a parts centre in Hong Kong for that corporate customer; and

(iii) Increase in consignment commission paid for the consignment sale of accessories.

Administrative expenses for the year ended 31 March 2015 was approximately HK$16,315,000 (2014: HK$13,214,000). The increase was mainly due to the increase in remuneration of employees.

Other operating expenses, net for the year ended 31 March 2016 were approximately HK$14,655,000 (2015: HK$15,250,000), representing a decrease of approximately 3.9% over the previous year. The decrease was mainly due to the following:

(i) Decrease in service centres management fee income and an one-off rental compensation from a corporate customer for the closure of a service centre in the year ended 31 March 2015;

(ii) An one-off performance bonus paid by a corporate customer in the year ended 31 March 2015;

(iii) Decrease in normal operating expenses due to the closure of the service centre in Hong Kong for that corporate customer; and

(iv) Decrease in rental expenses due to relocation of the service centre in Shenzhen.

Administrative expenses for the year ended 31 March 2016 was approximately HK$15,281,000 (2015: HK$16,315,000). The decrease was mainly due to the decrease in remuneration of employees.

Other operating expenses, net for the year ended 31 March 2017 were approximately HK$10,316,000, representing a decrease of approximately 29.6% over the previous year. The decrease was mainly due to the decrease in service centres rental and related expenses for the closure of a service centre of Customer C in the third quarter of 2015 due to the termination of the relevant service contract. The amount of revenue attributable to such service centre, i.e. the repair fees received from Customer C, for the two years ended 31 March 2016 were approximately HK$10,880,000 and approximately HK$4,107,000 respectively.

Administrative expenses for the year ended 31 March 2017 was approximately HK$14,871,000, representing a slight decrease of approximately 2.7%. The decrease was mainly due to a one-off business consultation fee paid in previous year.

Other operating expenses, net for the nine months ended 31 December 2017 were approximately HK$7,333,000 (2016: HK$7,947,000), representing a decrease of approximately 7.7% over the corresponding period of the previous year. The decrease was mainly due to the decrease in rental expenses for relocation of a repair centre for a corporate customer in March 2017.

Administrative expenses for the nine months ended 31 December 2017 were approximately HK$10,375,000 (2016: HK$11,761,000), representing a decrease of approximately 11.8% over the corresponding period of the previous year. The decrease was mainly due to decrease in exchange loss and offset by the increase in professional fees incurred for the transfer of listing application.

- **Profit for the year/period**

The Group had recorded a profit of approximately HK$24,480,000 for the year ended 31 March 2015 (2014: HK$14,346,000), representing an increase of approximately 70.6% from the previous year.

Profit for the year ended 31 March 2016 was approximately HK$22,381,000 (2015: HK$24,480,000), representing a decrease of approximately 8.6% from the previous year.

Profit for the year ended 31 March 2017 was approximately HK$22,650,000, representing an increase of approximately 1.2% as compared to the previous year.

Profit for the nine months ended 31 December 2017 was approximately HK$20,479,000 (2016: HK$14,233,000), representing an increase of approximately 43.9% from the corresponding period of the previous year. The increase was mainly due to increase in gross profit.

## OTHER FINANCIAL INFORMATION OF THE GROUP

Set out below is the breakdown of the Group's current assets and current liabilities for the three years ended 31 March 2017 and the nine months ended 31 December 2017:

| | For the year ended 31 March | | | **For the nine months ended 31 December** |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | **2017** |
| | *HK$'000* | *HK$'000* | *HK$'000* | ***HK$'000*** |
| | | | | **(unaudited)** |
| Current assets | | | | |
| Inventories | 4,295 | 6,381 | 4,789 | **2,739** |
| Trade and other receivables | 28,179 | 21,539 | 20,545 | **17,687** |
| Amounts due from related companies | 1,154 | 1,206 | 2,380 | **341** |
| Tax recoverable | — | 804 | — | **—** |
| Pledged bank deposits | 30,220 | 29,972 | 28,744 | **8,140** |
| Bank balances and cash | 14,265 | 16,908 | 32,391 | **80,892** |
| | 78,113 | 76,810 | 88,849 | **109,799** |
| Current liabilities | | | | |
| Trade and other payables | 9,967 | 6,151 | 6,872 | **7,218** |
| Amounts due to related companies | 79 | 2,273 | 104 | **37** |
| Tax payables | 1,703 | — | 42 | **4,345** |
| Bank overdrafts | 349 | — | — | **—** |
| Bank borrowings | 15,736 | 18,600 | 1,340 | **—** |
| | 27,834 | 27,024 | 8,358 | **11,600** |
| Net current assets | 50,279 | 49,786 | 80,491 | **98,199** |

- **Inventories**

  The Group's inventories balances mainly consist of merchandises such as spare parts consumed in the course of the provision of repair and refurbishment services and accessories for mobile phones and other personal electronic products for sale.

  The Group's inventories increased from approximately HK$4,295,000 as at 31 March 2015 to approximately HK$6,381,000 as at 31 March 2016 primarily because (i) the Group kept more parts for pagers on hand as the manufacturer for pagers ceased production in 2016 and (ii) accessories of approximately HK$893,000 were purchased in March 2016 and remained unsold as at 31 March 2016. The Group's inventory then decreased to approximately HK$4,789,000 as at 31 March 2017, primarily because of the sale of accessories for that year. The Group's inventories balances further decreased to approximately HK$2,739,000 as at 31 December 2017 mainly because parts which became unnecessary in repair and refurbishment in the amount of approximately HK$1,380,000 was returned to a supplier at cost in May 2017 according to respective contract.

  As at 31 January 2018, approximately 21.6% of the Group's inventories as at 31 December 2017 had been subsequently utilized or returned to the suppliers. The management of the Group reviews an ageing analysis at the end of the financial year and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices and current market conditions.

- **Trade and other receivables**

  Trade and other receivables of the Group as at 31 March 2015, 31 March 2016, 31 March 2017, and 31 December 2017 amounted to approximately HK$28,179,000, HK$21,539,000, HK$20,545,000 and HK$17,687,000, respectively. The decrease from approximately HK$28,179,000 as at 31 March 2015 to approximately HK$21,539,000 as at 31 March 2016 was mainly attributable to the termination of service contract with Customer C in 2015. The outstanding balance of that corporate customer as at 31 March 2015 was approximately HK$4,461,000. The trade and other receivables of the Group decreased from approximately HK$20,545,000 as at 31 March 2017 to approximately HK$17,687,000 as at 31 December 2017 primarily because the turnover in December 2017 was lower than that in March 2017.

  As at 31 January 2018, approximately 50.3% of the trade and other receivables as at 31 December 2017 had been settled. No provisions have been made by the Group.

- **Pledged bank deposits, and bank balances and cash**

  Pledged bank deposits of the Group represent deposits pledged to banks to secure banking facilities granted to the Group, including (1) short-term bank financing for the purpose of general working capital and purchase of spare parts and components; and (2) trade financing provided by banks for the purpose of purchase of spare parts and components. As at 31 March 2015, 2016 and 2017 and 31 December 2017, deposits amounting to approximately HK$30,220,000, HK$29,972,000, HK$28,744,000 and HK$8,140,000 were respectively pledged for the above-mentioned facilities.

  The amount of pledged bank deposits remained stable as at 31 March 2015, 2016 and 2017. During the nine months ended 31 December 2017, the Group did not renew certain banking facilities after taking into account its operating cash flow requirement and internal capital resources. Therefore, the amount of deposits pledged with banks decreased from approximately HK$28,744,000 as at 31 March 2017 to approximately HK$8,140,000 as at 31 December 2017.

  As at 31 March 2015, 2016 and 2017 and 31 December 2017, the bank balances and cash of the Group amounted to approximately HK$14,265,000, HK$16,908,000, HK$32,391,000 and HK$80,892,000, respectively. The slight increase in bank balances and cash of the Group from approximately HK$14,265,000 as at 31 March 2015 to approximately HK$16,908,000 as at 31 March 2016 was mainly a combined effect of the cash generated from operating activities and payment of dividends. The Group's bank balances and cash increased to approximately HK$32,391,000 as at 31 March 2017 mainly because proceeds from issue of shares upon exercise of warrants of approximately HK$13,103,000 was recorded during the year ended 31 March 2017. The increase in bank balances and cash from approximately HK$32,391,000 as at 31 March 2017 to approximately HK$80,892,000 as at 31 December 2017 was primarily the combined effect of (1) profit before tax of approximately HK$24,709,000 during the nine months ended 31 December 2017 while no tax was paid during the same period; (2) release of certain pledged deposits in the period as mentioned above; (3) decrease in inventories and trade and other receivables as compared with those as at 31 March 2017 due to the above mentioned reasons; and (4) interim dividends payment of approximately HK$3,844,000 during the nine months ended 31 December 2017.

  During the Track Record Period, the pledged bank deposits carried interest at fixed rates ranging from 0.03% to 5.75% per annum, whereas bank balances carried interest at market rates ranging from 0.01% to 0.35% per annum.

Please refer to the annual reports of the Company for the three years ended 31 March 2017 and the third quarterly report of the Company for the nine months ended 31 December 2017 for details of the financial performance of the Group and the corresponding management discussion and analysis of the respective financial periods.

## RISKS RELATING TO THE BUSINESS OF THE GROUP

### If the Group fails to accurately estimate the revenue or cost for performing a service agreement or transfer all the increases in cost of sales and operating expenses to the customers, it may experience cost overruns, lower profitability or even losses under the service agreement

The service agreements entered into by the Group and its corporate customers comprising manufacturers of mobile phones and personal electronic products, telecommunication service providers and global services companies require the Group to provide the services on pre-agreed prices during the term of the agreements. The Group, when estimating the revenue or costs for providing the repair and refurbishment services and, if necessary, operating service centres, takes into account a number of factors, including the number of work orders for repair and refurbishment, cost and availability of labour, rentals and technical standards to be applied to the repair and refurbishment works. However, the estimation may prove to be inaccurate. The deviation may be caused by the over-estimation of the number of work orders due to actual market demand of the products or unforeseeable economic downturn, or under-estimation of increase in labour cost or rental of service centres at prime locations in Hong Kong.

Moreover the pre-agreed prices may not be changed during the terms of the service agreements. Over-estimation of revenue and under-estimation of cost can result in a lower-than-expected profit or a loss on the performance of a service agreement with a customer.

### The continued successful operation of the Group's business depends on the Group's ability to renew the existing service agreements and the Group has limited bargaining power with certain corporate customers

As at the Latest Practicable Date, the Group has been appointed by its corporate customers comprising global manufacturers of mobile phones and other personal electronic products, telecommunication service provider and global services companies to provide repair and refurbishment services. The service fee received by the Group from such corporate customers of the Group accounted for approximately 64.3%, 58.6%, 57.1% and 75.4% of its revenue for each of the three years ended 31 March 2017 and for the nine months ended 31 December 2017, respectively.

The Group's successful business operation relies on the continued cooperation relationship with these corporate customers. There is no guarantee that the service agreements with any of the corporate customers could be renewed.

The corporate customers appointed TSO as their non-exclusive authorised service provider and such corporate customers have the right to appoint other authorised service providers. The corporate customers of the Group may choose to adjust their strategy in provision of after-sale services and establish their own large-scale repair and refurbishment service units or cooperate with other service providers.

Moreover, the Group has limited bargaining power with certain corporate customers as they are global manufacturers of mobile phones and other personal electronic products or global services companies. As a result, the Group may have entered into and may continue to enter into service agreements with certain provisions that are disadvantageous to it. For example, under the service agreements with certain corporate customers, the Group is required to operate the service centres in connection with the provision of the repair and refurbishment services and absorb the operating expenses for the centres, or the Group is required to purchase the parts and components for the repair and refurbishment works and then be reimbursed when such parts and components are used.

If any of the Group's corporate customers does not renew the service agreement with the Group and ceases business relationship with the Group, or only offers to renew the service agreement on less favourable terms, the Group's results of operation could be materially and adversely affected.

**The business and prospects of the Group are dependent on the business and financial performance of its corporate customers**

The business and prospects of the Group are dependent on the business and financial performance of the corporate customers of the Group, which are manufacturers of mobile phones and other personal electronic products, telecommunication service providers and global services companies. If such manufacturers of mobile phones and other personal electronic products are unable to keep abreast of the technological developments or market sentiments and consequently experience a slowdown due to any of these or other factors, it is likely that their products will become obsolete and, accordingly, demand for the Group's repair and refurbishment services for such products will decrease significantly. The Group is also dependent on the market acceptance and commercial success of such major customers' products and services which it cannot guarantee.

In addition, if one or more of the corporate customers were to become insolvent or otherwise cease to be engaged in the manufacturing business of personal electronic products, the business, financial condition and results of operation of the Group would be materially and adversely affected.

**The Group may fail to renew the existing tenancies and licenses for operation of its customer service centres and booth on commercially acceptable terms**

As at the Latest Practicable Date, the Group has entered into tenancy agreements for premises used for operation of its central repair and refurbishment centre, seven service centres in Hong Kong and one service centre in Macau. The relevant aggregate rental expenses of the Group were approximately HK$7.3 million, HK$7.2 million, HK$5.9 million and HK$6.2 million for each of the three years ended 31 March 2017 and for the nine months ended 31 December 2017, respectively.

The Group's ability to renew existing tenancy agreements for its repair and refurbishment centre and customer service centres upon their expiry is important to its operations. If the Group relocates a customer service centre, it will generally takes one to two months to renovate and prepare for the operation of the new centre and the relocation expenses (including renovation costs) will cost approximately HK$500,000.

In light of the prevailing rental trends for commercial premises in Hong Kong, the Group may not be able to renew the existing tenancy agreements on terms and conditions that are commercially acceptable to the Group or may have to renew such agreements on less favourable terms, thus increasing its costs of operation. If the Group fails to renew the tenancy agreements, it may have to incur additional costs in relocating its repair and refurbishment centre and customer service centres.

**A significant portion of the Group's revenue during the Track Record Period were contributed by the provision of repair and refurbishment services to the five largest customers of the Group**

The Group is dependent on the market acceptance and commercial success of its corporate customers' products. However the Group cannot guarantee that the products of its corporate customers will be marketable in the long term. For each of the three years ended 31 March 2017 and for the nine months ended 31 December 2017, the Group derived approximately 55.0%, 46.4%, 46.4%, and 65.7%, of its revenue for the provision of repair and refurbishment services to its five largest customers in the repair and refurbishment services segment, and approximately 19.3%, 16.8%, 22.4% and 26.9% of its revenue for the services provided to its largest customer in such segment. If the demand for the products of its five largest customers decreases, its revenue would decline significantly.

## INDUSTRY OVERVIEW

The Group mainly provides repair and refurbishment services for mobile phones and other personal electronic products. TSO, the operating subsidiary of the Company, is appointed by manufacturers of mobile phones and personal electronic products, telecommunication service providers and global services companies to provide repair and refurbishment services for such products. The Group's repair and refurbishment services primarily cover mobile phones, pagers, two-way mobile data communication devices, personal computers, tablet computers, portable media players, video game consoles and handheld game consoles.

The Directors consider that the market of repair and refurbishment services for mobile phones and other personal electronic products in Hong Kong is highly fragmented and competitive. The Group's primary competitors are other authorised service providers appointed by manufacturers of mobile phones and other personal electronic products to provide repair and refurbishment services for mobile phones and other personal electronic products which the Group currently repairs and refurbishes. Such competitors include service providers which principally provide repair and refurbishment services for mobile phones and other electronic products, and the distributors of personal electronic products which have the capabilities to provide repair and refurbishment services.

The Directors consider that competitive strengths of the Group, including but not limited to, the Group being an authorised service provider of prominent brands, its established relationships with its corporate customers, its experience in the provision of repair and refurbishment services for mobile phones and its commitment to providing value-added and quality services, have contributed to its success to date.

Due to keen competition amongst mobile phone manufacturers, new models of mobile phones are being put to the market every 3 to 6 months to stimulate consumers' demand. Strong smartphone sales and the growth in smartphone usage signals continuing opportunity for the Group. During the past years, the Group continued to improve its operational efficiency and service quality to enhance overall its ability to counter business risks and profitability of the Company. Although the competition may be growing, the Group is confident in its ability to maintain market share by leveraging its professional technical team and close relations with customers.

The Group aims to provide timely, professional and quality services to its customers and is committed to continuous improvement. We work co-operatively with our corporate customers to ensure effective quality service.

## RECENT DEVELOPMENT

The Group is a well-established repair service provider in Hong Kong, with an operating history since 1999. The Group mainly provides repair and refurbishment services for mobile phones and consumer electronic devices as well as sale of related accessories and products therefor. The Group has been appointed by corporate customers comprising manufacturers of mobile phones and personal electronic products, telecommunication service providers and global services companies as their service provider to provide repair and refurbishment services for their products and to their customers.

The Group's repair and refurbishment services primarily cover mobile phones, pagers, two-way mobile data communication devices, personal computers, tablet computers, portable media players, video game consoles and handheld game consoles. The Group's business objective is to boost the growth by enhancing the scope of the Group's repair and refurbishment services, strengthening the product knowledge and technical capability and expanding the scale of accessories business. During the Track Record Period, the Group's core businesses have been developed steadily, the Group will continue to explore other business opportunities for further development.

On 12 April 2017, Telecom Service One Limited, a wholly-owned subsidiary of the Company has successfully obtained ISO 9001:2015 certification — quality management system. This laid a solid foundation for the continuous expansion and improvement of the Group's businesses going forward. Moreover, the qualification strengthened the relationship with our customers and reinforced the corporate governance and compliance management for our further expansion.

Due to the change of operation model and requirement of a mobile phone manufacturer, namely Customer A, the Group and the Customer A have agreed to terminate their Shenzhen service agreement. As the opening of the Shenzhen centre was requested by Customer A under the Shenzhen service agreement, the repair centre in Shenzhen has been closed on 30 June 2017 following the termination of the service agreement. Accordingly the Group has no more business activity in the PRC. The revenue contribution from the Shenzhen centre, the repair fee received for the work orders in the PRC, for the three years ended 31 March 2017 and the three months ended 30 June 2017 were approximately HK$1,518,000, HK$1,190,000, HK$713,000 and HK$98,000, respectively, while the cost and expenses incurred in operating the Shenzhen centre for the three years ended 31 March 2017 and the three months ended 30 June 2017 were approximately HK$2,533,000, HK$1,892,000, HK$890,000 and HK$383,000, respectively. As more than 97% of the Group's revenues are generated from provision of repair and refurbishment services in Hong Kong for the Track Record Period, the Shenzhen centre did not start to make any profits during the Track

Record Period, and the Group continues to seek for other business opportunities, the management considers that the termination of the service agreement will not have any material adverse impact on the financial position and operation of the Group.

## FUTURE PROSPECTS AND BUSINESS STRATEGIES

In view of the macroeconomic environments is filled with uncertainties, the Group should stay vigilant to guard against various risks. The Group shall continue on streamlining management process, integrating external and internal resources, enhancing business process and management models. Looking forward, the Group will seek to further enhance service quality, bolster its market position, capture greater market share and raise its brand recognition, all of which are essential for ensuring the Group's continuous development and will also be cautiously assessing any business opportunities to ensure a bright future for our shareholders.

## CONTINUING CONNECTED TRANSACTIONS

As at the date of this announcement, the Group has entered into the following transactions, each of which constituted a non-exempt continuing connected transaction for the Company subject to announcement, annual review and reporting requirements but exempt from the independent Shareholders' approval requirement under Chapter 20 of the GEM Listing Rules and Chapter 14A of the Main Board Listing Rules, particulars of which were previously disclosed in the announcements of the Company dated 22 May 2014, 30 June 2014, 31 July 2014, 31 March 2015, 29 May 2015, 10 July 2015, 31 December 2015, 31 March 2016, 11 August 2016, 31 March 2017 and 31 May 2017.

### 1. Tenancy agreements with connected persons of the Company

The Group has been leasing properties in Hong Kong and Macau from the below connected persons of the Company for the use by the Group as head office, repair centres and warehouse:

(i) Oceanic Rich Limited ("**ORL**"), Glossy Investment Limited ("**GIL**"), Glossy Enterprises Limited ("**GEL**"), H.K. Magnetronic Company Limited ("**HKMag**") and Marina Trading Inc. ("**Marina**");

(ii) Mr. Cheung King Shek; and

(iii) TDS.

As ORL, GIL, GEL, HKMag and Marina are wholly-owned by East-Asia which is indirectly wholly-owned by the Cheung Family Trust which indirectly holds 51.49% of Shares in issue, they are connected persons of the Company under the GEM Listing Rules and the Main Board Listing Rules.

As Mr. Cheung King Shek is a Director and substantial shareholder of the Company, he is a connected person of the Company under the GEM Listing Rules and the Main Board Listing Rules.

TDS is wholly-owned by TDHL which is indirectly owned by the Cheung Family Trust as to 54.50%. As the Cheung Family Trust indirectly holds 51.49% of the Shares in issue, TDS is a connected person of the Company under the GEM Listing Rules and the Main Board Listing Rules.

Accordingly, each of these tenancy agreements constitutes a continuing connected transaction for the Company.

The rentals under the above tenancy agreements were determined with reference to the prevailing market rentals of similar properties in the nearby locations. As disclosed in the announcements of the Company dated 31 December 2015, 11 August 2016 and 31 March 2017, the aggregate annual caps of the rentals payable under the above tenancy agreements for the three years ended/ending 31 March 2016, 2017 and 2018 are HK$7,238,000, HK$6,852,000 and HK$6,885,000, respectively. The aggregate rentals paid by the Group for the years ended 31 March 2016 and 2017 to the connected persons are approximately HK$7,238,000 and HK$6,979,000, respectively.

***Annual caps exceeded in the year ended 31 March 2017***

As disclosed in the announcement of the Company dated 11 August 2016, the aggregate annual caps for the Sub-tenancy Agreement and the then existing tenancy agreements between TSO and TSO (Macau) as tenants and the other connected persons of the Company (which included GEL, GIL, HKMag, Marina and ORL) based on the total annual rentals payable thereunder during their respective terms of tenancy or sub-tenancy for the year ended 31 March 2017 would be HK$6,852,000 (the "**Annual Cap**").

The total rentals paid by the Group in the year ended 31 March 2017 to the connected persons of the Company, which amounted to approximately HK$6,979,000, have slightly exceeded the Annual Cap by approximately HK$127,000, because after the Sub-tenancy Agreement expired on 1 January 2017, TSO continued to use the sub-leased portion of the relevant shop and pay the monthly rental of HK$41,800 to TDS month by month for the three months from 1 January 2017 to 31 March 2017. Therefore the Annual Cap was exceeded since March 2017.

As disclosed in the announcement of the Company dated 31 March 2017, on 31 March 2017, each of the then tenancy agreements between the Group as tenants and the connected persons of the Company as landlords, which expired on 1 April

2017, was renewed by a renewal tenancy agreement for a further term to 31 March 2018, and the Sub-tenancy Agreement was also formally renewed by a renewal sub-tenancy agreement for a further term to 31 March 2018.

As certain tenancy agreements, which constituted continuing connected transactions of the Company, were renewed on 11 August 2016 so that all tenancy agreements (other than the Sub-tenancy Agreement) which constituted continuing connected transactions of the Company would expire on 1 April 2017, the date of expiry of the Sub-tenancy Agreement was mistakenly to be taken as also on 1 April 2017. This oversight was discovered near the end of March 2017 when the Company was in the process of preparing the above renewal tenancy agreements and the announcement of the Company dated 31 March 2017 in respect of the renewal of the tenancy agreements.

In order to avoid any occurrence of similar oversight as above in the future, the Company has set the expiry date of the tenancy and sub-tenancy agreements which constitute continuing connected transactions on the same date, i.e. 31 March 2018, so as to facilitate the Company to monitor such continuing connected transactions and comply with the requirements under the GEM Listing Rules in a timely manner. In addition, the accounting manager of the Group, has since then been designated to monitor the implementation of and review the effectiveness of the enhanced internal control measures.

The Directors consider that the abovementioned exceeding of the Annual Cap would not affect the suitability of the Directors under Rule 3.08 and 3.09 of the Main Board Listing Rules having taken into account that (i) the Group has implemented the abovementioned measures to avoid recurrence of the exceeding of Annual Cap; (ii) there were no recurring of similar exceeding of annual caps for continuing connected transactions of the Group since the implementation of such measures; and (iii) it did not involve any dishonesty or fraudulent act on the part of the Directors, and did not raise any question as to their integrity.

**2. Purchase of parts and components from SAP (and its subsidiaries)**

Since 2006, TSO has been purchasing parts and components such as parts for repairing pagers and two-way mobile data communication devices and mobile phone accessories from Sun Asia Pacific Limited ("**SAP**") and its subsidiaries (collectively, the "**SAP Group**"). On 31 March 2015, SAP and TSO have entered into an agreement in relation to such purchase of parts and components for the period from 1 April 2015 to 31 March 2018. The price of the parts and components purchased from the SAP Group is at cost plus certain percentage of the value of the orders. The prices of the parts and components are determined by TSO and SAP with reference to the prevailing market rate of similar products.

As SAP is wholly-owned by the Cheung Brothers who are Directors and Controlling Shareholders of the Company, each of SAP and its subsidiaries is an associate of the Cheung Brothers and therefore is a connected person of the Company under the GEM Listing Rules and the Main Board Listing Rules. Accordingly, the above transactions constitute continuing connected transactions for the Company.

As disclosed in the announcement of the Company dated 31 March 2015, the annual caps for the amount of parts and components to be purchased from the SAP Group by TSO for the three years ended/ending 31 March 2016, 2017 and 2018 is HK$5,000,000, HK$2,500,000 and HK$1,500,000, respectively. The amount of parts and components purchased from the SAP Group by TSO for the years ended 31 March 2016 and 2017 are approximately HK$1,995,000 and HK$1,530,000, respectively.

**3. Mobile phone accessories sale agreement with SUN Mobile**

On 31 March 2015, TSO (a wholly-owned subsidiary of the Company) has renewed a sale agreement with Sun Mobile, pursuant to which TSO has agreed to sell mobile phone accessories to SUN Mobile for the period from 1 April 2015 to 31 March 2018 at cost plus a certain percentage of markup. The price of such mobile phone accessories is determined by TSO and SUN Mobile with reference to the prevailing market rate of similar products.

SUN Mobile is indirectly owned by TDHL as to 40% which is indirectly owned by the Cheung Family Trust as to 54.50%. As the Cheung Family Trust indirectly holds 51.49% of the Shares in issue, SUN Mobile is a connected person of the Company under the GEM Listing Rules and the Main Board Listing Rules. Accordingly, the above transactions constitute continuing connected transactions for the Company.

As disclosed in the announcement dated 31 March 2015, the annual caps of the sales income receivable from SUN Mobile by TSO for the three years ended/ending 31 March 2016, 2017 and 2018 are HK$9,500,000 respectively. The sales income received from SUN Mobile by TSO for the years ended 31 March 2016 and 2017 are approximately HK$9,500,000 and HK$9,486,000, respectively.

**4. Master Agreement with TDHL**

On 22 May 2014, TSO (a wholly-owned subsidiary of the Company) entered into a master agreement with TDHL (the "**Master Agreement**") setting out the governing terms and conditions in relation to the following continuing connected transactions with certain members of TDHL group for a term up to 31 March 2017. TDHL is indirectly owned by the Cheung Family Trust as to 54.50% which indirectly holds 51.49% of the Shares in issue, and is therefore a connected person of the Company under the GEM Listing Rules and the Main Board Listing Rules. Accordingly, the below transactions constitute continuing connected transactions for the Company.

TSO expects that the transactions between TSO and TDHL group will continue after the expiration of the Master Agreement. Therefore, on 31 March 2017, TSO and TDHL entered into the renewal master agreement ("**Renewal Agreement**") for a term of one year commencing from 1 April 2017.

**a.** ***Provision of repair and refurbishment services by TSO to TDHL group***

TSO has been providing repair and refurbishment services for pagers and Mango Devices to the TDHL group. The service fees charged by TSO is on a "per device" basis. The service fees are determined by TSO and the TDHL group with reference to the prevailing market rate (in terms of, among others, profit margin) of similar services and the historical amounts paid by TDHL group to TSO.

As disclosed in the announcements of the Company dated 22 May 2014 and 31 March 2017, the aggregate annual caps for the repair and refurbishment service fees receivable from the TDHL group by TSO under the Master Agreement and the Renewal Agreement for the three years ended/ending 31 March 2016, 2017 and 2018 are HK$10,000,000, HK$10,000,000 and HK$5,000,000, respectively. The repair and refurbishment service fee received from the TDHL group by TSO under the Master Agreement and the Renewal Agreement for the years ended 31 March 2016 and 2017 are approximately HK$9,139,000 and HK$5,846,000.

**b.** ***Consignment of accessories for mobile phones and personal electronic products of TSO***

TDS (a wholly-owned subsidiary of TDHL) 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 based on a fixed percentage of the sales of consigned goods, shall be paid by TSO to TDS for the consignment arrangement. Such consignment fee has been determined by TSO and TDS with reference to the prevailing market rate of similar consignment arrangements and the historical amounts paid by TSO to TDHL group.

As disclosed in the announcements of the Company dated 22 May 2014 and 31 March 2017, the annual caps for the consignment fees payable by TSO to TDS under the Master Agreement and the Renewal Agreement for the three years ended/ending 31 March 2016, 2017 and 2018 are HK$4,000,000, HK$4,200,000 and HK$4,000,000 respectively. The consignment fees paid by TSO to TDS under the Master Agreement and the Renewal Agreement for the years ended 31 March 2016 and 2017 are approximately HK$2,093,000 and HK$961,000, respectively.

The Company will comply with the relevant requirements under Chapter 14A of the Main Board Listing Rules regarding its continuing connected transactions after transfer from GEM to the Main Board.

## NO MATERIAL ADVERSE CHANGE

The Directors confirm that subsequent to 31 March 2017 and up to the date of this announcement, there is no unfavourable trends or developments which may have a material adverse impact on the Group's business and financial performance.

## BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company discloses below the biographical information of each Director and senior management:

### Directors

#### *Non-executive Directors*

**Mr. Cheung King Shek**, aged 66, was appointed as a Director in August 2012, appointed as chairman of the Company and re-designated as non-executive Director in April 2013, and is responsible for advising on overall strategic planning and management of the Group. Mr. Cheung King Shek has been a director of TSO since April 1987. He was appointed as a director of TDHL in November 2002, and was appointed as its chairman and re-designated as its executive director in March 2014. He joined TDHL group in 1981 and is responsible for the overall strategic planning and corporate policies. Mr. Cheung King Shek brings to TDHL group more than 30 years of experience in the telecommunications industry and has achieved a solid track record of achievements. Under his leadership and stewardship, TDHL group has grown to be a versatile service provider in the telecommunications industry. Mr. Cheung King Shek graduated with a bachelor's degree in commerce from the University of New South Wales in April 1976 and a master degree in business administration from the University of Melbourne in Australia in August 1981. Mr. Cheung King Shek is the chairman of Hong Kong Radio Paging Association Limited, and an honorary citizen of

Swatow City. He is the elder brother of Mr. Cheung King Shan (non-executive Director), Mr. Cheung King Chuen Bobby (non-executive Director) and Mr. Cheung King Fung Sunny (chief executive officer and executive Director).

**Mr. Cheung King Shan**, aged 59, was appointed as a Director in August 2012 and re-designated as non-executive Director in April 2013 and is advising on marketing and sales strategies. Mr. Cheung King Shan has been a director of TSO since June 1999. He was appointed as a director of TDHL in November 2002, re-designated as its non-executive director in March 2014 and re-designated as its executive director on 8 September 2015, and is responsible for advising on sales and marketing and apps writing in relation to TDHL's information broadcasting services. Mr. Cheung King Shan joined TDHL group in 1985 and was responsible for the overall planning and formulation of the marketing and sales strategies in line with its sales and corporate targets, and played a major role in the growth of the sales volume and customer base. Mr. Cheung King Shan graduated from the Carleton University in Ottawa, Canada with a bachelor's degree in art in November 1983. He is the younger brother of Mr. Cheung King Shek (chairman and non-executive Director), and the elder brother of Mr. Cheung King Chuen Bobby (non-executive Director) and Mr. Cheung King Fung Sunny (chief executive officer and executive Director).

**Mr. Cheung King Chuen Bobby**, aged 59, was appointed as a Director in August 2012 and re-designated as non-executive Director in April 2013 and is advising on administrative operation. Mr. Cheung King Chuen Bobby has been a director of TSO since April 1987. He was appointed as a director of TDHL in November 2002, re-designated as its non-executive director in March 2014 and re-designated as its executive director on 8 September 2015, and is responsible for advising on administration, human resources and special ad hoc projects. He joined TDHL group in 1985 and was responsible for the formulation and implementation of its administrative policies as well as overseeing its administrative operation in human resources, legal and administration, property management and China projects. Mr. Cheung King Chuen Bobby obtained a bachelor degree in art in urban planning studies and a postgraduate diploma in urban planning implementation from the University of Westminster in London in 1983 and 1984 respectively. He is a committee member of Chinese People's Political Consultative Conference of Swatow City, and an honorary citizen of Swatow City. He is also the principal president of Hong Kong & Kowloon Chiu Chow Public Association. Mr. Cheung King Chuen Bobby is the younger brother of Mr. Cheung King Shek (chairman and non-executive Director) and Mr. Cheung King Shan (non-executive Director), and the elder brother of Mr. Cheung King Fung Sunny (chief executive officer and executive Director).

Each of Mr. Cheung King Shek, Mr. Cheung King Chuen Bobby and Mr. Cheung King Fung Sunny holds 6,000,000 shares of the Company, representing approximately 4.68% of the total issued share capital in the Company and Mr. Cheung King Shan holds 6,102,000 shares of the Company, representing approximately 4.76% of the total issued share capital in the Company, as a beneficial owner and is deemed to be interested in 66,000,000 Shares, representing approximately 51.49% of the total issued share capital in the Company as a beneficiary of a trust. The 66,000,000 shares, representing approximately 51.49% of the Shares in issue, are held by East-Asia. East-Asia is wholly-owned by Amazing Gain. The sole shareholder of Amazing Gain is Asia Square Holdings Limited, which holds the shares in Amazing Gain as nominee for J. Safra Sarasin Trust Company (Singapore) Limited (trustee of the Cheung Family Trust). The Cheung Family Trust is a discretionary trust, the discretionary objects of which include the Cheung Brothers. Each of the Cheung Brothers is deemed to be interested in the shares in the Company held by the Cheung Family Trust under the SFO.

Each of Mr. Cheung King Shek, Mr. Cheung King Shan and Mr. Cheung King Chuen Bobby has signed an appointment letter with the Company, and is appointed for a fixed term of three years commencing from 30 April 2016 subject to early removal from office in accordance with the Articles of Association, and retirement and re-election provisions in the Articles of Association. Each of Mr. Cheung King Shek, Mr. Cheung King Shan and Mr. Cheung King Chuen Bobby did not receive remuneration from the Group for the year ended 31 March 2017 but may receive a discretionary bonus subject to the approval by the remuneration committee of the Company and the Board. Their bonuses were approved by the Board and remuneration committee of the Company and were determined with reference to their respective duties and responsibilities with the Company.

***Executive Directors***

**Mr. Cheung King Fung Sunny**, aged 50, was appointed as a Director in August 2012, re-designated as executive Director in April 2013 and appointed as the chief executive officer of the Company in August 2014, and is primarily responsible for managing the Group's relationship with the customers and exploring new business opportunities for the Group. Mr. Cheung King Fung Sunny has been a director of TSO since June 1999. He was appointed as a director of TDHL in November 2002, re-designated as its executive director in March 2014, appointed as its chief executive officer on 8 September 2015, and is primarily responsible for overseeing the financial management of TDHL group. He joined TDHL group in 1990. Mr. Cheung King Fung Sunny graduated from the University of Western Ontario in Canada with a bachelor's degree in administrative and commercial studies in October 1990. He is the younger brother of Mr. Cheung King Shek (chairman and non-executive Director), Mr. Cheung King Shan (non-executive Director) and Mr. Cheung King Chuen Bobby (non-executive Director).

Mr. Cheung King Fung Sunny has entered into a service contract with the Company for an indefinite term commencing from 30 April 2013 until terminated by not less than three months' notice in writing served by either party on the other. Mr. Cheung

King Fung Sunny is entitled to a remuneration of HK$324,000 per annum and may receive a discretionary bonus subject to the approval by the remuneration committee of the Company and the Board. His remuneration and discretionary bonus are determined with reference to his duties and responsibilities with the Company.

***Independent non-executive Directors***

**Mr. Fong Ping**, aged 67, was appointed as an independent non-executive Director on 30 April 2013. He is also the chairman of the remuneration committee and a member of the audit committee and nomination committee of the Company. He is a chairman of the board of directors of Canaan International Trading Limited, which is engaged in trading business, and Hong Kong Isabelle Company Limited, which is engaged in shipping business. Mr. Fong has over 26 years of experience in garment and jewelry industries. Mr. Fong is a committee member of Chinese People's Political Consultative Conference of Guangdong Province. He completed secondary education in the People's Republic of China. He was an independent non-executive director of TC Orient Lighting Holdings Limited (stock code: 515) from 15 June 2012 to 16 October 2014, the shares of which are listed on the Main Board of the Stock Exchange.

**Ms. Kwok Yuen Man Marisa**, aged 63, was appointed as an independent non-executive Director on 30 April 2013. She is also the chairman of nomination committee and a member of the audit committee and remuneration committee of the Company. She has over 30 years of experience in holding senior managerial roles in telecommunication industry. She joined Cable & Wireless HKT Limited in April 1982 and left the company in February 2000 when she was the director of corporate market. In 2001, she joined Hong Kong CSL Limited as director, marketing and operations and left the company in June 2004. She later joined PCCW-HKT Limited as managing director, commercial group from June 2004 to February 2006. From June 2006 to March 2007, she was the managing director of Boyden China Limited, a global executive search firm. From March 2007 to March 2011, Ms. Kwok was the general manager, marketing unit Hong Kong & Macau, of Sony Ericsson Mobile Communications International AB. Currently, Ms. Kwok is a director of Rich Gain Worldwide Limited, which mainly engages in retail of apparel, leather goods and accessories. She holds a bachelor of arts honours degree in business administration from the University of Western Ontario.

**Mr. Tso Ka Yi**, aged 53, was appointed as an independent non-executive Director on 15 January 2018. He is also the chairman of audit committee and a member of the nomination committee and remuneration committee of the Company. He is currently a director of Mandarin Kopitiam Management Limited, a company focuses on the franchise business of a Singaporean famous kopitiam brand "Killiney" in Hong Kong. From January 2011 to December 2013, he served as a chief financial officer of Mandarin International Limited, a master franchisee of "Killiney". Afterwards, he was appointed as director of Mandarin International Limited from December 2013 to

September 2017. He joined Ernst & Young Tax Services Limited as junior accountant in December 1990 and left the company as a senior manager in December 1999. Mr. Tso graduated from The Chinese University of Hong Kong with a Bachelor's degree of Business Studies in 1987. In 2005, he also obtained a Master's degree of Management and a Bachelor's degree of Arts (Japan Studies) from Massey University in New Zealand. Mr. Tso is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

None of the Directors has any written service contract with the Company which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Save as disclosed above, none of the Directors (i) has held any directorship in any public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years; (ii) as at the date of this announcement, has any interest in the Shares which required to be disclosed under Part XV of the Securities and Futures Ordinance; and (iii) has any relationship with any other directors, senior management, substantial shareholders or controlling shareholders of the Company.

Save as disclosed above, there is no information relating to the Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Main Board Listing Rules and the Board is not aware of any other matter that needs to be brought to the attention of the Shareholders in relation to their directorships.

**Senior management**

**Ms. Fong Kit Sze**, aged 43, has been the general manager of TSO since October 2008 and is primarily responsible for client management and supervision of the daily operation of TSO. She joined TSO in May 2004 as business development manager. Ms. Fong was the business development manager of TDS from October 2003 to April 2004 and was primarily responsible for the development of IDD business. Since May 2004, Ms. Fong has been under the Group's employment but not the other businesses of the controlling shareholders of the Company. Ms. Fong also worked for Wharf T&T Limited and New World Telephone Limited as account manager from June 2003 to September 2003 and from February 2002 to June 2003 respectively. Ms. Fong received her bachelor's degree in social science in East Asian studies from the City University of Hong Kong in November 1998.

### Company secretary

**Ms. Yeung Wing Chong** has been appointed as the company secretary of the Company in October 2016 after Ms. Tsang Kit Man, who had been appointed as the company secretary of the Company in February 2014, resigned as the company secretary of the Company in October 2016. Prior to joining the Company, Ms. Yeung worked in the company secretarial department of Regal Hotels International Holdings Limited (stock code: 78). She has over 10 years of experience in handling company secretarial matters for Hong Kong listed companies as well as professional services provider. She obtained a degree of master of corporate governance from The Hong Kong Polytechnic University in 2011. Ms. Yeung is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for viewing on the respective websites of the Company at www.tso.cc and of the Stock Exchange at http://www.hkexnews.hk:

i. the Memorandum and the Articles of Association;

ii. the Directors' report and annual report of the Company for the year ended 31 March 2017;

iii. the circulars of the Company dated 28 June 2016 and 30 June 2017 in relation to general mandates to issue and repurchase shares, re-election of directors and notice of general meeting;

iv. the first quarterly report of the Company for the three months ended 30 June 2017;

v. the interim report of the Group for the six months ended 30 September 2017;

vi. the third quarterly report of the Group for the nine months ended 31 December 2017; and

vii. announcements and other corporate communications made by the Company prior to the date of this announcement as required under the GEM Listing Rules and the Main Board Listing Rules.

## DEFINITIONS

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

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| "Amazing Gain" | Amazing Gain Limited, a company incorporated in the BVI with limited liability on 10 August 2000 and wholly-owned by the Cheung Family Trust |
| "Articles of Association" | the articles of association of the Company as adopted by the Company from time to time |
| "associate(s)" | has the meaning ascribed to it under the Main Board Listing Rules |
| "Board" | the board of Directors |
| "BVI" | the British Virgin Islands |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "Company" or "our Company" or "we" or "us" | Telecom Service One Holdings Limited (stock code: 8145), a company incorporated in the Cayman Islands with limited liability, and the issued Shares of which are listed and traded on GEM |
| "Cheung Brothers" | Mr. Cheung King Shek, Mr. Cheung King Shan, Mr. Cheung King Chuen Bobby and Mr. Cheung King Fung Sunny |
| "Cheung Family Trust" | a discretionary trust established for the benefit of the Cheung Brothers and their family members, of which the Cheung Brothers are among the discretionary objects |
| "Controlling Shareholder(s)" | has the meaning ascribed to it under the Main Board Listing Rules, and, in the context of this announcement, means the controlling shareholder(s) of our Company, East-Asia, Amazing Gain, the Cheung Brothers, and the trustee of the Cheung Family Trust |
| "Director(s)" | the director(s) of the Company |

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| "East-Asia" | East-Asia Pacific Limited, a company incorporated in the BVI with limited liability on 18 August 1993 and is a wholly owned subsidiary of Amazing Gain |
| "GEM" | the GEM of the Stock Exchange |
| "GEM Listing" | the listing of Shares on GEM |
| "GEM Listing Rules" | the Rules Governing the Listing of Securities on GEM, as amended, supplemented or otherwise modified from time to time |
| "Group" or "our Group" or "we" or "us" | the Company and its subsidiaries |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "HK$" or "Hong Kong Dollar(s)" | Hong Kong dollar(s), the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Latest Practicable Date" | 12 March 2018, being the latest practicable date prior to the publication of this announcement for the purpose of ascertaining certain information contained in this announcement |
| "Macau" | the Macau Special Administrative Region of the PRC |
| "Main Board" | the securities market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) which continues to be operated by the Stock Exchange parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM |
| "Main Board Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Memorandum" | the memorandum of the Company as adopted by the Company from time to time |
| "Mango Devices" | the specific devices designed by the Group for the Group's Mobitex based services |

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| "Mobitex" | an open systems interconnection model based open standard, national public access wireless packet-switched data network, and a kind of wireless data technology |
| "Placing" | the placing of 30,000,000 Shares for the listing of the Shares on GEM as set out in the Prospectus |
| "PRC" | The People's Republic of China, which, for the purpose of this announcement, shall exclude Hong Kong, Macau and Taiwan |
| "Prospectus" | the prospectus of the Company dated 23 May 2013 in connection with the Placing and the listing of the Shares on GEM |
| "Share(s)" | ordinary share(s) of HK$0.1 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Share Option Scheme" | the share option scheme adopted by the Company on 20 May 2013 |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Sub-tenancy Agreement" | the sub-tenancy agreement dated 31 December 2015 entered into between TDS and TSO |
| "SUN Mobile" | Sun Mobile Limited (formerly known as New World Mobility Limited), a mobile service operator in Hong Kong and a 40%-owned associate of TDM |
| "TDD" | Telecom Digital Data Limited (電訊數碼信息有限公司), a company incorporated in Hong Kong with limited liability on 3 September 1999 and is an indirect wholly-owned subsidiary of TDHL |
| "TDHL" | Telecom Digital Holdings Limited (電訊數碼控股有限公司), the shares of which are listed on the Main Board (stock code: 6033), is 54.50%-owned by the Cheung Family Trust, and thus a connected person of the Company |

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| "TDM" | Telecom Digital Mobile Limited (電訊數碼移動有限公司), a company incorporated in Hong Kong with limited liability on 27 August 2001 and is an indirect wholly-owned subsidiary of TDHL |
| "TDS" | Telecom Digital Services Limited (電訊數碼服務有限公司), a company incorporated in Hong Kong with limited liability on 17 September 2001 and an indirect wholly-owned subsidiary of TDHL |
| "TSO" | Telecom Service One Limited, a wholly-owned subsidiary of the Company mainly provides repair and refurbishment services for mobile phones and other personal electronic products |
| "Track Record Period" | the three years ended 31 March 2017 and the nine months ended 31 December 2017 |
| "Transfer of Listing" | the proposed transfer of the listing of the Shares from GEM to Main Board |
| "%" | per cent. |

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

Hong Kong, 16 March 2018

*As at the date of this announcement, the chairman and non-executive director of the Company is Mr. Cheung King Shek; the chief executive officer and executive director of the Company is Mr. Cheung King Fung Sunny; the non-executive directors of the Company are Mr. Cheung King Shan and Mr. Cheung King Chuen Bobby; and the independent non-executive directors of the Company are Mr. Fong Ping, Ms. Kwok Yuen Man Marisa and Mr. Tso Ka Yi.*

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

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkexnews.hk/for at least seven days from the date of its publication and on the website of the Company at www.tso.cc.*

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