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Telecom Service One Holdings Limited

電訊首科控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3997)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2019

The board of directors (the “Board”) of Telecom Services One Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2019, together with the comparative figures for the year ended 31 March 2018:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Revenue	4	65,992	99,295
Cost of sales		(36,318)	(49,007)
Gross profit		29,674	50,288
Other income	6	3,870	5,110
Other operating expenses, net	7	(8,418)	(9,968)
Administrative expenses		(14,023)	(15,906)
Finance costs	8	—	(1)
Profit before tax		11,103	29,523
Income tax expense	9	(1,701)	(4,253)
Profit for the year	10	9,402	25,270
Other comprehensive income (expense)			
Items that will not be reclassified to profit or loss:			
Remeasurement of long service payment obligations		(75)	(87)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		(10)	3
Other comprehensive expense for the year		(85)	(84)
Total comprehensive income for the year		9,317	25,186
Earnings per share (HK\$)			
Basic	12	0.0733	0.1972
Diluted		0.0731	0.1970

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
Non-current assets			
Plant and equipment		651	1,799
Deferred tax asset		586	809
		1,237	2,608
Current assets			
Inventories		1,294	1,715
Trade and other receivables	13	12,921	18,952
Amounts due from related companies		428	296
Tax recoverable		3,637	409
Pledged bank deposits		201	8,521
Bank balances and cash		86,749	78,170
		105,230	108,063
Current liabilities			
Trade and other payables	14	5,277	7,465
Amounts due to related companies		104	53
		5,381	7,518
Net current assets		99,849	100,545
Total assets less current liabilities		101,086	103,153
Non-current liability			
Long service payment obligations		—	91
Net assets		101,086	103,062
Capital and reserves			
Share capital	15	12,834	12,820
Reserves		88,252	90,242
Total equity		101,086	103,062

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2019

1. GENERAL

The Company is a company incorporated in the Cayman Islands as an exempted company with limited liability under Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 3 August 2012 and its shares are listed on GEM of the Stock Exchange on 30 May 2013. On 27 March 2018, its shares have been transferred from GEM to the Main Board of the Stock Exchange (Stock Code: 3997). The address of the registered office of the Company is Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands and the principal place of business of the Company is at Portion B of Unit 1806 and Unit 1807, 18/F., Riley House, 88 Lei Muk Road, Kwai Chung, New Territories, Hong Kong.

The directors of the Company consider the immediate holding company is East-Asia Pacific Limited, a company incorporated in the British Virgin Islands (the “BVI”) and the ultimate parent is Cheung Family Trust.

The Company is principally engaged in investment holding. The principal activities of its subsidiaries are provision of repair and refurbishment services for mobile phones and other personal electronic products as well as the sales of related accessories.

The functional currency of the Company is Hong Kong dollars (“HK\$”) while the functional currencies for certain subsidiaries are Renminbi (“RMB”), Macau Patacas (“MOP”) and United States dollars (“US\$”). For the purpose of presenting the consolidated financial statements, the Group adopted HK\$ as its presentation currency which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied for its first time, the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The impact of the adoption of HKFRS 9 *Financial Instruments* and HKFRS 15 *Revenue from Contracts with Customers* have been summarised below. The application of other new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 9 *Financial instruments*

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Group has applied HKFRS 9 retrospectively to financial instruments that have not been derecognised at the date of initial application (i.e. 1 April 2018) in accordance with the transition provisions under HKFRS 9, and chosen not to restate comparative information. Differences in the carrying amounts of financial assets and financial liabilities on initial application are recognised in retained profits as at 1 April 2018.

(i) *Classification and measurement of financial instruments*

The directors of the Company reviewed and assessed the Group's existing financial assets and financial liabilities as at 1 April 2018 based on the facts and circumstances that existed at that date and concluded that all recognised financial assets and financial liabilities that are within the scope of HKFRS 9 are continued to be measured at amortised cost as were previously measured under HKAS 39.

(ii) *Loss allowance for expected credit losses ("ECL")*

The adoption of HKFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss model with a forward-looking ECL approach. As at 1 April 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirement of HKFRS 9.

It is concluded that, as at 1 April 2018, no additional credit loss allowance has been recognised against retained profits as the estimated allowance under the ECL model were not significantly different to the impairment losses previously recognised under HKAS 39.

All financial liabilities have not been impacted by the application of HKFRS 9 and continue to be classified and measured on the same basis as they were under HKAS 39.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 superseded HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised. The Group has elected to adopt the modified retrospective approach for contracts with customers that are not completed

as at the date of initial application (i.e. 1 April 2018) with the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits and comparative information is not restated.

The impact of transition to HKFRS 15 was insignificant on the retained profits at 1 April 2018.

New and amendments to HKFRSs issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and interpretation that have been issued but are not yet effective:

HKFRS 16	Leases ¹
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC)—Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKFRS 3	Definition of a Business ³
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁵
Amendments to HKAS 1 and HKAS 8	Definition of Material ²
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2020.

³ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

⁴ Effective for annual periods beginning on or after 1 January 2021.

⁵ Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that, except as described below, the application of the other new and amendments to HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 16 *Leases*

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 *Property, Plant and Equipment*, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 is effective for the Group's annual periods beginning on or after 1 April 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of lease in HKFRS 16 only to contracts that are entered into or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use modified retrospective approach for the adoption HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019, if any, and will not restate the comparative information. As at 31 March 2019, the Group has non-cancellable operating lease commitments of HK\$328,000.

The directors of the Company expect that the adoption of HKFRS 16 will not have material impact on the Group's result.

3. BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transaction and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statement in preparing the consolidated financial statements to ensure conformity with the Group's accounting policies.

Control is achieved where the Group:

- has power over the investee;
- is exposure, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power over the investee to affect the amount of the Group's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transaction between entities of the Group are eliminated in full on consolidation.

4. REVENUE

Revenue represents the amounts received or receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes. An analysis of the Group's revenue for the year is as follows:

	2019 <i>HK\$'000</i>	2018* <i>HK\$'000</i>
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or services lines		
— Repairing service income	64,125	96,852
— Sales of accessories	<u>1,867</u>	<u>2,443</u>
	<u>65,992</u>	<u>99,295</u>

* The amounts for the year ended 31 March 2018 were recognised under HKAS 18.

Disaggregation of revenue by geographical region

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Geographical region of revenue recognition		
Hong Kong	65,564	97,577
The People's Republic of China (the "PRC")	—	101
Macau	<u>428</u>	<u>1,617</u>
At a point in time	<u>65,992</u>	<u>99,295</u>

5. SEGMENT INFORMATION

The Group is engaged in a single segment, the provision of repair and refurbishment services for mobile phones and other personal electronic products as well as the sales of related accessories. Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors as they collectively make strategic decision in allocating the Group's resources and assessing performance.

Geographical information

During the years ended 31 March 2019 and 2018, the Group's operations were located in Hong Kong, the PRC and Macau.

During the year ended 31 March 2019, 99% (2018: 98%) of the Group's revenue, based on the location of the operations, was generated in Hong Kong while as at 31 March 2019, 100% (2018: 96%) of the non-current assets, based on the geographical location of the assets, was located in Hong Kong. Hence, no geographical information is presented.

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group is as follows:

	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer I	N/A*	23,334
Customer II	17,621	22,552
Customer III	9,087	10,967

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

6. OTHER INCOME

	2019 HK\$'000	2018 HK\$'000
Management fee income (<i>Note i</i>)	123	363
Consignment goods handling income (<i>Note ii</i>)	321	296
Bank interest income	2,334	997
Exchange gain	—	2,781
Storage income (<i>Note iii</i>)	997	414
Others	95	259
	<u>3,870</u>	<u>5,110</u>

Notes:

- (i) The amount represents management income received from manufacturers of mobile phones for the provision of management service such as inventory management and software upgrade to one of their operation teams in Hong Kong.
- (ii) The amount represents fee income received for handling consignment goods for certain manufacturers of mobile phones at the Group's service centres.
- (iii) The amount represents storage income received from manufacturers of mobile phones for the provision of management service of damaged mobile phones in Hong Kong.

7. OTHER OPERATING EXPENSES, NET

	2019 HK\$'000	2018 HK\$'000
Reimbursement of expenses for service centres	—	55
Miscellaneous income charges	111	256
	<u>111</u>	<u>311</u>
Less: Other operating expenses of service centres	<u>(8,529)</u>	<u>(10,279)</u>
Other operating expenses, net	<u>(8,418)</u>	<u>(9,968)</u>

8. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest on bank loans and overdrafts	<u>—</u>	<u>1</u>

9. INCOME TAX EXPENSE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Hong Kong Profits Tax		
— current year	1,317	4,412
— Under(over)-provision in prior years	<u>161</u>	<u>(115)</u>
	1,478	4,297
Deferred tax		
— current year	<u>223</u>	<u>(44)</u>
	<u><u>1,701</u></u>	<u><u>4,253</u></u>

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for both years. No provision for taxation has been made for the PRC subsidiary as there were no assessable profits for both years.

Macau Complementary Income Tax is calculated at the progressive rate on the estimated assessable profits. No provision for Macau taxation has been made for the Macau subsidiary for the year ended 31 March 2019 as there were no assessable profits. No provision for Macau taxation has been made for the year ended 31 March 2018 since the assessable profits are wholly absorbed by tax losses brought forward.

10. PROFIT FOR THE YEAR

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit for the year has been arrived at after charging (crediting):		
Directors' and chief executive's emoluments		
— salaries, allowances and other benefits	684	684
— employer's contributions to retirement benefits schemes	16	16
	<u>700</u>	<u>700</u>
Other staff costs		
— salaries, allowances and other benefits	26,531	34,501
— employer's contributions to retirement benefits schemes	1,216	1,577
— share-based payment expenses	—	69
— long service payment obligations	37	166
	<u>27,784</u>	<u>36,313</u>
Total staff costs	<u><u>28,484</u></u>	<u><u>37,013</u></u>
Auditor's remuneration	710	710
Depreciation of plant and equipment	851	1,347
Exchange loss	2,018	—
(Reversal of allowance) allowance for inventories (included in cost of sales)	(320)	825
Amount of inventories recognised as an expense	11,909	15,984
Write-off of inventories (included in cost of sales)	456	97
Bad debts written off (included in administrative expenses)	—	303
Loss on write-off of plant and equipment	296	109
Operating leases rentals in respect of rented premises	<u><u>7,471</u></u>	<u><u>8,273</u></u>

11. DIVIDENDS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
2017/18 first interim dividend of HK\$0.01 per share	—	1,281
2017/18 second interim dividend of HK\$0.02 per share	—	2,564
2017/18 third interim dividend of HK\$0.02 per share	—	2,564
2017/18 fourth interim dividend of HK\$0.05 per share	6,411	—
2018/19 first interim dividend of HK\$0.02 per share	2,565	—
2018/19 second interim dividend of HK\$0.01 per share	1,283	—
2018/19 third interim dividend of HK\$0.01 per share	1,283	—
	<u>11,542</u>	<u>6,409</u>

Subsequent to the end of the report period, the fourth interim dividend of HK\$0.03 per share in respect of the year ended 31 March 2019 has been declared by the directors of the Company.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Earnings		
Earnings for the purpose of basic and diluted earnings per share for the year attributable to the owners of the Company	<u>9,402</u>	<u>25,270</u>
	2019	2018
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	128,265,507	128,121,342
Effect of dilutive potential ordinary shares:		
Share options	<u>393,270</u>	<u>167,736</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>128,658,777</u>	<u>128,289,078</u>

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options granted on 7 July 2015 as the exercise price of those share options was higher than the average market price for the shares for both years.

13. TRADE AND OTHER RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade receivables	7,657	13,324
Other receivables	245	347
Deposits	4,855	5,157
Prepayments	164	124
	<u>12,921</u>	<u>18,952</u>

The Group does not hold any collateral over these balances.

As at 31 March 2019, the gross amount of trade receivables arising from contracts with customers amounted to approximately HK\$7,657,000 (2018: HK\$13,324,000).

The Group grants an average credit period of 30 days to 60 days to its trade customers.

The following was an aged analysis of trade receivables presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	3,317	6,741
31 to 60 days	4,107	6,237
61 to 90 days	6	6
91 to 120 days	193	59
Over 120 days	34	281
	<u>7,657</u>	<u>13,324</u>

The aged analysis of trade receivables that were past due as at the end of the reporting period but not impaired was as follows:

	2018 <i>HK\$ '000</i>
Past due for:	
31 to 60 days	4,321
61 to 90 days	6
91 to 120 days	59
Over 120 days	<u>281</u>
	4,667
Neither past due nor impaired	<u>8,657</u>
Total	<u><u>13,324</u></u>

As at 31 March 2018, the Group has not provided for any impairment loss for the above balances as there has not been a significant change in the credit quality of customers and the amounts are still considered as recoverable.

The Group performs ongoing credit evaluations of its customers and credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers.

Before the application of HKFRS 9 on 1 April 2018, the Group has policy regarding impairment losses on trade receivables. The Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

Starting from 1 April 2018, the Group measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The ECL on trade receivables are assessed by using a provision matrix based on the credit risk characteristic and the ageing of trade receivables. The Group considers the historical loss rates in the past three years and adjusts for forward looking factors in calculating the ECL rates.

The Group's lifetime ECL for trade receivables based on the ageing of customers.

	Weighted average expected loss rate %	Gross carrying amount <i>HK\$'000</i>
Within 30 days	*	3,317
31 to 60 days	*	4,107
61 to 90 days	*	6
91 to 120 days	*	193
Over 120 days	*	34
Total		<u>7,657</u>

* The weighted average expected loss rate is immaterial.

Directors of the Company consider the ECL of trade receivables is insignificant, therefore no loss allowance on trade receivables was recognised as at 31 March 2019.

The Group's trade and other receivables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
US\$	<u>5,277</u>	<u>7,231</u>

14. TRADE AND OTHER PAYABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables	2,738	2,736
Accrued expenses and other payables	<u>2,539</u>	<u>4,729</u>
Total	<u><u>5,277</u></u>	<u><u>7,465</u></u>

The average credit period on purchases of goods ranged from 30 days to 60 days. The Group has financial risk management policies in place to ensure that all payables are settled within credit timeframe.

The following was the aged analysis of trade payables presented based on the invoice dates at the end of the reporting period:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 30 days	1,022	1,022
31 to 60 days	107	51
61 to 90 days	—	54
Over 90 days	<u>1,609</u>	<u>1,609</u>
	<u><u>2,738</u></u>	<u><u>2,736</u></u>

The Group's trade and other payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
US\$	1,037	670
Japanese Yen	153	153
RMB	<u>—</u>	<u>95</u>

15. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 April 2017, 31 March 2018, 1 April 2018 and 31 March 2019	1,000,000,000	100,000
Issued and fully paid:		
At 1 April 2017	128,002,000	12,800
Issue of shares upon exercise of share options (<i>Note a</i>)	200,000	20
At 31 March 2018 and 1 April 2018	128,202,000	12,820
Issue of shares upon exercise of share options (<i>Note b</i>)	140,000	14
At 31 March 2019	128,342,000	12,834

Notes:

- (a) On 18 July 2017, 18 August 2017 and 16 March 2018, 120,000, 60,000 and 20,000 ordinary shares respectively of HK\$0.1 each were issued at a price of HK\$1.78 per share upon the exercise of share options granted on 6 July 2017. The total consideration was approximately HK\$356,000 and resulted in the net increase in share capital and share premium of approximately HK\$20,000 and HK\$344,000 respectively. The share options reserve has been decreased by approximately HK\$8,000 and was transferred to share premium account.
- (b) On 15 June 2018, 18 July 2018, 26 September 2018, 16 November 2018 and 18 March 2019, 20,000, 20,000, 40,000, 40,000 and 20,000 ordinary shares respectively of HK\$0.1 each were issued at a price of HK\$1.78 per share upon the exercise of share options granted on 6 July 2017. The total consideration was approximately HK\$249,000 and resulted in the net increase in share capital and share premium of approximately HK\$14,000 and 241,000 respectively. The share options reserve has been decreased by approximately HK\$6,000 and was transferred to share premium account.

All shares issued during the years ended 31 March 2019 and 2018 rank pari passu with the existing shares in all respects.

16. OPERATING LEASES COMMITMENT

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within one year	<u>328</u>	<u>1,800</u>

The Group leases certain of its office premises and service outlets under operating lease arrangements. Leases are negotiated for a term of one (2018: one to two) year with fixed rentals as at the end of each reporting period.

17. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme of the Company

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a written resolution of the Company passed on 2 May 2013 for the purpose of attracting and retaining the best quality personnel for the development of the Group's businesses, providing additional incentives to the qualifying grantees, and promoting the long term financial success of the Group by aligning the interests of option holders to shareholders of the Company. Under the Share Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, consultants, business partners or other eligible person as stated in the Share Option Scheme, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue during any 12-month period, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5,000,000 must be approved in advance by the Company's shareholders.

Options granted must be taken up within twenty-eight days from the date of the offer, upon payment of HK\$1 per offer. Option periods of the options granted shall not be greater than a period of ten years from the date of grant of the options. The exercise price is determined by the directors of the Company, and will not be less than the highest of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

On 6 July 2017, the Company offered an aggregate of 2,560,000 share options to the employees of the Company, to subscribe, in aggregate, for up to 2,560,000 ordinary shares of HK\$0.1 each of the share capital of the Company under the Share Option Scheme.

As at 31 March 2019, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 780,000 shares (2018: 2,120,000 shares), representing approximately 0.61% (2018: 1.65%) of the ordinary shares in issue at that date.

The following table discloses movements of the Company's share options held by employees during the year:

Category of participant	Date of grant	Number of share options				Outstanding at 31 March 2019	Exercisable period	Exercise price per option
		Outstanding at 1 April 2018	Granted during the year	Lapsed during the year	Exercised during the year			
Employees	7 July 2015	740,000	—	(740,000)	—	—	7 July 2015 to 6 July 2018	HK\$2.59
Employees	6 July 2017	1,380,000	—	(460,000)	(140,000)	780,000	6 July 2017 to 5 July 2019	HK\$1.78
Total		<u>2,120,000</u>	<u>—</u>	<u>(1,200,000)</u>	<u>(140,000)</u>	<u>780,000</u>		
Exercisable at the end of the year						<u>780,000</u>		
Weighted average exercise price (HK\$)		<u>2.06</u>	<u>—</u>	<u>2.28</u>	<u>1.78</u>	<u>1.78</u>		

The following table discloses movements of the Company's share options held by employees in prior year:

Category of participant	Date of grant	Number of share options				Outstanding at 31 March 2018	Exercisable period	Exercise price per option
		Outstanding at 1 April 2017	Granted during the year (Note)	Lapsed during the year	Exercise during the year			
Employees	7 July 2015	800,000	—	(60,000)	—	740,000	7 July 2015 to 6 July 2018	HK\$2.59
Employees	6 July 2017	—	1,640,000	(60,000)	(200,000)	1,380,000	6 July 2017 to 5 July 2019	HK\$1.78
Total		<u>800,000</u>	<u>1,640,000</u>	<u>(120,000)</u>	<u>(200,000)</u>	<u>2,120,000</u>		
Exercisable at the end of the year						<u>2,120,000</u>		
Weighted average exercise price (HK\$)		<u>2.59</u>	<u>1.78</u>	<u>2.19</u>	<u>1.78</u>	<u>2.06</u>		

Note: The number of share options granted during the year ended 31 March 2018 excluded 920,000 share options that were not accepted by the employees at the date of grant.

In respect of the share option exercised during the year ended 31 March 2019, the weighted average share price at the date of exercise is HK\$2.95 (2018: HK\$2.26).

Share-based payment expenses of approximately HK\$69,000 (2019: nil) were recognised by the Group for the year ended 31 March 2018 in relation to share options granted by the Company.

The fair value was calculated using the Binomial model. The inputs into the modal were as follows:

	Options granted on 6 July 2017
Share price at date of grant on 6 July 2017	HK\$1.75
Exercise price	HK\$1.78
Expected volatility	48.24%
Expected life	2 years
Risk-free rate	0.91%
Expected dividend yield	6.01%
Exit rate	22.81%
Estimated fair value per option	HK\$0.042

Expected volatility was determined by using the historical volatility of the share price of certain companies in the similar industry over the previous years.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

The market for the repair and refurbishment services for mobile phones and other personal electronic products in Hong Kong is extremely fragmented and competitive. To stimulate consumer demand, mobile phone manufacturers launch new phone models every three-to-six months. For the Group, smartphone sales growth and increasing smartphone usage provide ample business opportunities. Although market competition is becoming more and more intense, the Group believes that by continuing to enhance operational efficiency and service quality, it will be able to maintain its market share and leadership.

Backed by a professional technical team and boasting close relationships with customers and extensive experience in mobile phone repair and refurbishment services, the Group is committed to providing value-added and quality services, and capable of delivering timely, professional and quality services to customers, which will allow it to stand out among the market competition.

Business Review

The Group has been providing repair and refurbishment services for mobile phones and consumer electronic devices in Hong Kong for the past decade. Its customer base includes corporate customers, telecommunications services providers and global services companies. As at 31 March 2019, the Group recorded a drop in revenue and net profit of approximately 33.5% and approximately 62.8% respectively, resulting from a decline in demand for repair services that was beyond its control. The decline reflected an overall downturn in the mobile telecommunications services sector, which was compounded by a decrease in sales volume of smartphones. Separately, the Group recorded an unrealised exchange loss on an approximately RMB27 million fixed deposit.

Financial Review

Revenue

The Group's revenue comprises repairing service income and income from sales of accessories. Repairing service income for the year ended 31 March 2019 was approximately HK\$64,125,000 (2018: HK\$96,852,000), representing a decrease of approximately 33.8% over the previous year. The decrease in repairing service income was mainly due to a decrease in repair jobs. Revenue from sales of accessories for the year ended 31 March 2019 decreased approximately 23.6% to approximately HK\$1,867,000 as compared which approximately HK\$2,443,000 in the previous year. The decrease was solely attributable to a decrease in sales.

Cost of Sales

The Group's cost of sales comprises mainly direct labour cost and parts cost. During the year ended 31 March 2019, cost of sales decreased by approximately 25.9% to approximately HK\$36,318,000 from approximately HK\$49,007,000. 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\$11,909,000 (2018: HK\$15,984,000), representing a decrease of approximately 25.5% from that of the previous year. The decrease was due to the Group having received fewer work orders which required the Group to purchase spare parts and components without reimbursement. In addition, cost of accessories also decreased as a result of a down-turn in the accessories business.

Direct labour cost for the year ended 31 March 2019 was approximately HK\$24,409,000 (2018: HK\$33,023,000), representing a decrease of approximately 26.1%. The decrease was mainly due to a reduction in manpower.

Gross Profit and Gross Profit Margin

The Group's gross profit for the year was approximately HK\$29,674,000 (2018: HK\$50,288,000), representing a decrease of approximately 41.0% over the previous year. Gross profit margin decreased by approximately 5.6% to approximately 45.0% from approximately 50.6%. The decrease in gross profit margin was primarily because of a decrease in work orders (for pre-loading of apps), which did not require the Group to purchase spare parts.

Other Income

Other income for the year was approximately HK\$3,870,000 (2018: HK\$5,110,000). Other income mainly comprised of management fee income, consignment goods handling income, storage income, foreign exchange difference and bank interest income. The decrease was mainly due to the exchange loss on the foreign currency deposit recorded in the current year (as opposed to the exchange gain recorded in 2018).

Net Operating Expenses and Administrative Expenses

Other operating expenses, net for the year ended 31 March 2019 were approximately HK\$8,418,000 (2018: HK\$9,968,000), representing a decrease of approximately 15.5% over the previous year. The decrease was mainly due to decrease in rental expenses for reorganisation of repair centres for corporate customers.

Administrative expenses for the year ended 31 March 2019 was approximately HK\$14,023,000 (2018: HK\$15,906,000), representing a decrease of approximately 11.8%. The decrease was mainly due to the professional fees incurred for the transfer of listing from GEM to Main Board of The Stock Exchange in 2018.

Income Tax Expense

Income tax for the year ended 31 March 2019 was approximately HK\$1,701,000 (2018: HK\$4,253,000), representing a decrease of approximately 60.0%.

Profit for the Year

Profit for the year ended 31 March 2019 was approximately HK\$9,402,000 (2018: HK\$25,270,000), representing an decrease of approximately 62.8% as compared to the previous year.

Material Acquisitions or Disposals and Significant Investments

The Group did not make any material acquisition or disposal of subsidiaries or significant investments during the year ended 31 March 2019.

Liquidity and Financial Resources

As at 31 March 2019, the Group had current assets of approximately HK\$105,230,000 (2018: HK\$108,063,000) and current liabilities of approximately HK\$5,381,000 (2018: HK\$7,518,000).

As at 31 March 2019, the Group's gearing ratio was approximately 0.1% as compared to approximately 0.1% as at 31 March 2018, which is calculated based on the Group's total borrowings of approximately HK\$104,000 (2018: HK\$53,000) and the Group's total equity of approximately HK\$101,086,000 (2018: HK\$103,062,000).

At present, the Group generally finances its operations with internally generated cash flows and banking facilities. Net cash generated from operating activities for the year was approximately HK\$9,222,000. Net cash from investing activities was approximately HK\$10,654,000.

The Group maintained a healthy liquidity position as at 31 March 2019. The Group had cash and cash equivalents of approximately HK\$86,749,000 as at 31 March 2019 (2018: HK\$78,170,000). Apart from providing working capital to support its business development, the Group also has available banking facilities and the net proceeds from the placing and listing (the “Listing”) of the issued ordinary shares of the Company on GEM on 30 May 2013 to meet potential needs for business expansion and development. As at 31 March 2019, the Group had no bank borrowings and unutilised banking facilities of approximately HK\$200,000 available for further drawdown should it have any further capital needs.

Contingent Liabilities

As at 31 March 2019, the Group had no material contingent liabilities (2018: nil).

Foreign Currency Risk

The majority of the Group’s business is in Hong Kong and transactions are denominated in HK\$ and US\$. The Group currently does not have a foreign currency hedging policy. However, the Directors continuously monitor the related foreign exchange exposure and may consider hedging significant foreign currency exposure should the need arise.

Capital Commitments

As at 31 March 2019, the Group did not have any significant capital commitments (2018: nil).

Dividend

At a meeting held on 25 June 2019, the Board declared the fourth interim dividend of HK\$0.03 per share for the year ended 31 March 2019 (2018: HK\$0.05 per share).

Capital Structure

Except for the issue of new shares upon the exercise of share options as disclosed in note 17 to this announcement, there was no change in the capital structure during the year ended 31 March 2019.

The capital structure of the Group consists of bank balances and cash and equity attributable to owners of the Group, comprising issued share capital and reserves. The management reviews the capital structure regularly. As part of the review, they consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the management, the Group will balance its overall capital structure through the payment of dividends, issuance of new shares as well as the issue of new debt or the redemption of existing debt.

Significant Investments Held

Except for investments in subsidiaries, during the year ended 31 March 2019, the Group did not hold any significant investment in equity interest in any other company and did not own any property.

Employees and Remuneration Policies

As at 31 March 2019, the Group employed 85 (2018: 142) full-time employees including management, administration, operation and technical staff. The employees' remuneration, promotion and salary increments are assessed based on both individual's and the Group's performance, professional and working experience and by reference to prevailing market practice and standards. The Group regards quality staff as one of the key factors to corporate success.

Outlook

Going forward, the Group will explore more value-added services. A mobile phone insurance programme is slated to be launched in late 2019. Participants will consequently be entitled to certain free repair services within a specified period. The aforesaid insurance programme is expected to contribute to the Group's overall revenue from the coming financial year onwards. The Group will duly explore opportunities to attract mobile phone manufacturers to engage in the programme.

Besides delivering value-added services, the Group will explore business and investment opportunities that lead to wider sources of income, and particularly greater profitability. In addition, the Group will continue to implement its diversification strategy, which is aimed at better responding to the rapidly changing business environment, as well as creating synergies with the core repair and refurbishment services operation.

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 Listing. As disclosed in the prospectus of the Company dated 23 May 2013 (the "Prospectus"), approximately HK\$13.4 million will be used for the acquisition of a commercial property in Hong Kong for use as a customer service centre. The balance of approximately HK\$1.5 million will be reserved as general working capital.

As at the date of this announcement, the net proceeds of approximately 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. However, the Directors will constantly evaluate the Group's business objectives and may change or modify plans against the changing market condition to attain sustainable business growth of the Group.

SUFFICIENCY OF PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, during the year ended 31 March 2019 and up to the date of this announcement, the Company has maintained the public float required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as otherwise disclosed, no transaction, arrangement or contract of significance to which the Company, its holding companies, or any of its subsidiaries or fellow subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, either directly or indirectly, subsisted at the end of the year ended 31 March 2019 or at any time during that year.

OTHER INFORMATION

Purchase, Sale or Redemption of Listed Securities of the Company

During the year ended 31 March 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Fourth Interim Dividend

On 25 June 2019, the Board declared a fourth interim dividend of HK\$0.03 per Share for the year ended 31 March 2019. The fourth interim dividend will be payable in cash to the Shareholders whose names appear on the register of members of the Company on Friday, 12 July 2019.

The fourth interim dividend is expected to be paid on or about Friday, 19 July 2019.

Annual General Meeting

An Annual General Meeting (the "AGM") of the Company will be convened to be held on Wednesday, 4 September 2019. The Notice of the Annual General Meeting will be published on the websites of the Stock Exchange and the Company, and despatched to the shareholders of the Company in July 2019.

Closure of Register of Members

The register of members of the Company will be closed during the following periods:

- (a) from Thursday, 11 July 2019 to Friday, 12 July 2019 (both days inclusive), for the purpose of determining Shareholders' entitlement to the fourth interim dividend. In order to qualify for the fourth interim dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Wednesday, 10 July 2019; and
- (b) from Thursday, 29 August 2019 to Wednesday, 4 September 2019 (both days inclusive), for the purpose of determining Shareholders who are entitled to attend and vote at the AGM. In order to attend and vote at the AGM, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at their address as mentioned above for registration not later than 4:00 p.m. on Wednesday, 28 August 2019.

No transfer of shares will be registered during the periods mentioned in paragraphs (a) and (b) above.

Corporate Governance Practices

During the year ended 31 March 2019, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules (the “CG Code”), except the deviation as disclosed below:

- According to the Code Provision C.1.2 of the CG Code, the management shall provide all members of the Board with monthly updates. During the year ended 31 March 2019, the chief executive officer of the Company has provided and will continue to provide all members of the Board with updates on any material changes to the positions and prospects of the Company, which is considered to be sufficient to provide general updates of the Company’s performance, position and prospects to the Board and allow them to give a balanced and understandable assessment of the same to serve the purpose required by the Code Provision C.1.2.

Review of Results

The audit committee of the Company (the “Audit Committee”) was established on 2 May 2013 with written terms of reference in compliance with the CG Code. The terms of reference of Audit Committee are available on the websites of the Stock Exchange and the Company. The primary duties of the Audit Committee, among other things, are to make recommendations to the Board on the appointment, reappointment and removal of external auditor; to monitor integrity of the Company’s financial statements and reports and accounts, and review significant financial reporting judgments contained in them; to oversee the financial reporting system, risk management and internal control systems of the Company; and to review arrangements for employees to raise concerns about possible improprieties in financial reporting, internal control or other matters.

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Fong Ping, Ms. Kwok Yuen Man Marisa and Mr. Tso Ka Yi. Mr. Tso Ka Yi is the chairman of the Audit Committee.

The Audit Committee has reviewed the accounting standards and practices adopted by the Group and discussed with the management about the internal control and financial reporting matter. The consolidated financial statements and final results of the Group for the year ended 31 March 2019 have been reviewed by the Audit Committee and have been audited by Group’s auditor, Messrs SHINEWING (HK) CPA Limited.

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

Hong Kong, 25 June 2019

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

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