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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: 8145)

CONTINUING CONNECTED TRANSACTIONS

ENTERING INTO MASTER AGREEMENT WITH TDHL

As disclosed in the Prospectus of the Company dated 23 May 2013 and announcements of the Company dated 31 July 2013 and 13 December 2013, TSO has entered into continuing connected transactions with certain members of TDHL Group which include (i) provision of repair and refurbishment services to TDD, (ii) consignment in relation to the Accessories and (iii) provision of logistic services to TSO by TSN.

On 22 May 2014, TSO entered into the Master Agreement with TDHL setting out the governing terms and conditions in relation to the Services for an extended term up to 31 March 2017.

As TDHL is a connected person of the Company, the entering into the Master Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company. As the percentage ratios for the relevant aggregate annual cap amounts for each of the Services are less than 25% and the annual cap amounts for each of them are below HK\$10 million, the Master Agreement is subject to the reporting, announcement and annual review requirements but is exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

INTRODUCTION

As disclosed in the Prospectus of the Company dated 23 May 2013 and announcements of the Company dated 31 July 2013 and 13 December 2013, TSO, being the wholly-owned subsidiary of the Company, has entered into continuing connected transactions with TDHL Group which include (i) provision of repair and refurbishment services to TDD, (ii) consignment in relation to the Accessories and (iii) provision of logistic services to TSO by TSN.

On 22 May 2014, TSO entered into the Master Agreement with TDHL setting out the governing terms and conditions in relation to the Services for an extended term up to 31 March 2017.

I. PROVISION OF REPAIR AND REFURBISHMENT SERVICES TO TDD

TSO has been providing repair and refurbishment services for pagers and Mango Devices to TDD (a wholly-owned subsidiary of TDHL) since 2006.

The service fee charged by TSO is on a “per device” basis. The service fees are determined by TSO and TDD with reference to the current market rate (in terms of, among others, profit margin) of similar services. The terms offered to TDD under the existing agreement and in the Master Agreement are no less favourable than those offered to other Independent Third Parties in the ordinary course of business. The service fees are subject to annual review and adjustment by TSO with reference to the then market rate. In the event that the service fees chargeable by TSO to TDD are less favourable than those chargeable by TSO to Independent Third Parties for similar services, TSO shall have the option to review and adjust the service fees under the existing agreement.

Historical amounts

Set out below are the historical amounts of repair and refurbishment service fees received by the Group from TDHL Group:

	<i>HK\$</i>
Year ended 31 March 2012	9,639,000
Year ended 31 March 2013	10,040,000
Year ended 31 March 2014	9,980,000

The service fees received by the Group have remained substantially the same due to the steady number of approximately 73,000 units of pagers and Mango Devices supplied by TDHL Group to the Group for repair and refurbishment and the unit fee charged by the Group at HK\$125 per device plus the cost of parts of pagers and Mango Devices reimbursed by the Group.

Annual caps

Set out below are the annual caps for the aggregate repair and refurbishment service fees receivable by the Group from TDHL Group:

	<i>HK\$</i>
Year ending 31 March 2015	10,000,000
Year ending 31 March 2016	10,000,000
Year ending 31 March 2017	10,000,000

In determining the annual caps, the Company has considered:

- (i) the historical amount of service fees received by the Group from TDHL Group, taking into account the unit fee per device to be charged by the Group for each of the three years ending 31 March 2017 plus the parts cost to be reimbursed are expected to be similar to the corresponding unit fee of HK\$125 per device charged plus the corresponding parts cost reimbursed for each of the three years ended 31 March 2014 respectively;

- (ii) the projected demand for the repair and refurbishment services, taking into account the estimated annual volume of 73,000 units of pagers and Mango Devices to be supplied by TDHL Group to the Group for repair and refurbishment, which is projected based on the defective rate of the devices for each of the three years ended 31 March 2014 respectively; and
- (iii) the market rate of similar services provided by Independent Third Parties, with reference to the service fees charged by the Group against other mobile phone manufacturers who have appointed the Group to provide repair and refurbishment services for mobile phones.

II. PROVISION OF VARIOUS SERVICES BY TDHL GROUP

The scope of services TDHL Group has been providing and expects to continue to provide to the Group includes:

A. Consignment in relation to the Accessories

The Group has been selling the Accessories at its service centres. Prior to May 2013, TDM (a wholly-owned subsidiary of TDHL principally engaged in the provision of operation services to NWM) also sold an immaterial amount of mobile phone accessories in their retail shops. In connection with the listing of the Company and in order to avoid potential competition between the Group and TDHL Group, in May 2013, the Cheung Brothers entered into a deed of non-competition in favour of the Company pursuant to which TDM ceased to engage in the sale of the Accessories.

Since December 2012, TDM has allowed TSO to sell the Accessories at their retail shops 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 to TDM for the consignment arrangement. Such consignment fee has been determined by TSO and TDM with reference to the current market rate of similar consignment arrangements. The terms offered to the Group under the agreement are no less favourable than those offered to other Independent Third Parties in the ordinary course of business.

On 13 December 2013, as a result of business restructuring, TDM ceased to be involved in the consignment sales of Accessories, and TDS (another wholly-owned subsidiary of TDHL) has been responsible for such consignment arrangement and accordingly, the Group entered into a consignment agreement with TDS on terms materially the same as with TDM previously.

B. Provision of logistic services to TSO by TSN

TSN (a wholly-owned subsidiary of TDHL) has been providing logistic services for delivery of goods (for example, defective devices for repair and refurbishment) between the office, service centres and collection points of the Group. The fees charged by TSN are on a “per delivery” basis. The fees for the services are determined by TSO and TSN with reference to the current market rate of similar services. The terms offered to TSO under the existing agreement are no less favourable than those offered to other Independent Third Parties in the ordinary course of business.

Historical amounts

Set out below are the historical amounts of logistic service fee and consignment fee paid by the Group to TDHL Group:

	Logistic service fee	Consignment fee	Total service fees paid by the Group
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Year ended 31 March 2012	417,000	--	417,000
Year ended 31 March 2013	783,000	590,000	1,373,000
Year ended 31 March 2014	725,000	1,543,000	2,268,000

The significant increase in such historical transaction amounts was primarily due to the increasing sale of Accessories at retail shops of TDHL Group and the increasing number of delivery orders requested by the Group, which resulted in more demand for consignment arrangements and logistic services for delivery of goods between various locations of the Group respectively.

Annual caps

Set out below are the annual caps for the aggregate of logistic service fee and consignment fee payable by the Group to TDHL Group:

	Logistic service fee	Consignment fee	Total service fees payable by the Group
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Year ending 31 March 2015	850,000	3,800,000	4,650,000
Year ending 31 March 2016	900,000	4,000,000	4,900,000
Year ending 31 March 2017	950,000	4,200,000	5,150,000

The increase in the annual caps for consignment fee is determined with reference to:

- (i) the historical amount of consignment fee paid by the Group to TDHL Group, taking into account the rate of 30% of the sale of the consigned Accessories set by TDHL Group as the consignment fee. It is expected that the consignment fee to be paid by the Group shall be similar to the above corresponding rate;
- (ii) the expected increase in demand for Accessories. TSO installed a digital printing system for mobile phone cases in late 2013. Such digital printing system can print photos chosen by customers on mobile phone cases. The Directors expected that this new service would increase the consignment sale of mobile phone cases of TSO, and therefore expected an increase in consignment fee payable to TDHL Group in the coming years as compared to the historical figure in the year ended 31 March 2014. As compared to the historical consignment fee of HK\$1,543,000 for the year ended 31 March 2014, the annual cap of consignment fee for the year ending 31 March 2015 of HK\$3,800,000 increased by about HK\$2.3 million. Since no mobile phone cases were sold in previous years, we expected that the mobile phone cases would create an additional customer demand. For the purpose of estimating this annual cap, it was assumed that 60,000 mobile phone cases may be sold in the year ending 31 March 2015 (representing about 100 mobile phone cases would be sold each month in each of 51 shops of TDHL Group). The retail price of the mobile phone case is about HK\$148 each. As the consignment fee is calculated based on 30% of the sale of the consigned Accessories, it was expected that the mobile phone cases would result in an increase of consignment fee of over HK\$2.0 million. As stated in the announcement of the

Company dated 13 December 2013, the Board also expected that, among other things, the amount of consignment fee payable by the Group to TDHL Group in the year ending 31 March 2015 would be HK\$3,800,000; and

- (iii) the projected demand for consignment arrangements at the retail shops of TDHL Group in view of the expected business growth in the sale of the Accessories. It was expected that there will be an increase in the consignment fee by HK\$200,000 per annum in each of the three years ending 31 March 2017.

In respect of the logistic service fee, the increase in the annual caps is determined with reference to:

- (i) the historical amount of logistic service fee paid by TSO to TDHL Group, taking into account the rate of HK\$21,600 per month for normal delivery of products of a mobile phone brand, HK\$20 or HK\$120 per normal delivery of goods, and HK\$260 plus expenses of tunnel(s) and carpark(s) (where applicable) per special delivery of goods. It is expected that the logistic service fee to be paid by the Group shall be similar to the above corresponding rate; and
- (ii) the projected demand for logistic services for delivery of goods between various service centres and collection points of TSO in view of the expected overall business growth of TSO. It is expected that there will be an increase in the logistic service fee by HK\$50,000 per annum in each of the three years ending 31 March 2017.

REASONS AND BENEFITS OF ENTERING INTO THE MASTER AGREEMENT

According to the Master Agreement, separate service agreements in terms not contrary to the Master Agreement would be entered into between the Group and the TDHL Group from time to time. As at the date of this announcement, in view that the terms of the existing agreements in respect of the repair and refurbishment services by TSO to TDD and consignment in relation to the Accessories have not yet expired, there was no new individual service agreement entered into between the Group and TDHL Group in respect of the Services pursuant to the Master Agreement. As the Master Agreement offers flexibility for regulating such further separate service agreements and for the purpose of administrative convenience, it is considered to be beneficial to the Company.

The Directors, including independent non-executive Directors, are of the view that the entering into of the Master Agreement is in the ordinary and usual course of business of the Company, and that the Master Agreement including the annual caps of the respective Services is on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

CONNECTION BETWEEN PARTIES

TDHL is owned by CKK Investment Limited and the Cheung Brother as to 73.33% and 16.67%. CKK Investment Limited is a wholly-owned subsidiary of Amazing Gain Limited, which is the controlling shareholder of the Company. TDHL is therefore an associate of Amazing Gain Limited and a connected person of the Company as defined under the GEM Listing Rules. Accordingly, the entering into the Master Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under

the GEM Listing Rules.

Four Directors and significant Shareholders of the Company, namely, the Cheung Brothers, being also directors and controlling shareholders of TDHL, are all the Directors of the Company who are considered as having conflict of interest in the transactions under the Master Agreement and they have abstained from voting on the resolution of the Board approving the Master Agreement and the transactions contemplated thereunder.

GEM LISTING RULES IMPLICATIONS

As all applicable percentage ratios for the annual caps for each of the Services are less than 25% and the annual cap amounts for each of them are below HK\$10 million, the Master Agreement is subject to the reporting and announcement requirements set out in Rules 20.45 to 20.47, the annual review requirements set out in Rules 20.37 to 20.40 and the requirements set out in Rules 20.35(1) and 20.35(2) of the GEM Listing Rules, but is exempt from the independent shareholders' approval requirement pursuant to Rule 20.34 of the GEM Listing Rules. The Company will comply with the continuing obligations under Rules 20.37 to 20.41 of the GEM Listing Rules and will re-comply with the relevant GEM Listing Rules when the Master Agreement is renewed or when there is a material change to its terms.

GENERAL INFORMATION

The Company is principally engaged in providing repair and refurbishment services for mobile phones and other personal electronic products as well as sale of related accessories therefor. TDHL is principally engaged in investment holding and its principal subsidiaries are principally engaged in the telecommunications and related business in Hong Kong.

TERMS USED IN THIS ANNOUNCEMENT

Unless the context otherwise requires, capitalized terms used in this announcement shall have the following meanings:-

“Accessories”	accessories for mobile phones and personal electronic products
“Board”	board of the directors of the Company
“Cheung Brothers”	Mr. Cheung King Shek, Mr. Cheung King Shan, Mr. Cheung King Chuen Bobby and Mr. Cheung King Fung Sunny
“Company”	Telecom Service One Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (stock code: 8145)
“Director(s)”	director(s) of the Company

“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party(ies)”	a person or company who or which is independent of and not connected (within the meaning of the GEM Listing Rules) with the Company and its connected persons
“Mango Devices”	the two-way mobile data communication devices specifically used by TDD for its provision of two-way mobile data communication services
“Master Agreement”	the agreement dated 22 May 2014 entered into between TSO and TDHL in relation to the Services
“NWM”	New World Mobility Limited, a company incorporated in Hong Kong with limited liability, a 40% owned associate of TDHL
“Prospectus”	the prospectus of the Company dated and issued on 23 May 2013 in respect of the listing of shares on Growth Enterprise Market by way of placing
“Services”	the services, namely, (i) provision of repair and refurbishment services to TDD, (ii) consignment in relation to the Accessories and (iii) provision of logistic services to TSO by TSN
“TDD”	Telecom Digital Data Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of TDHL
“TDHL”	Telecom Digital Holdings Limited, a company incorporated in Cayman Islands with limited liability
“TDHL Group”	TDHL and its subsidiaries
“TDM”	Telecom Digital Mobile Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of TDHL

“TDS”	Telecom Digital Services Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of TDHL
"TSO"	Telecom Service One Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
“TSN”	Telecom Service Network Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of TDHL
“%”	per cent.

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

Hong Kong, 22 May 2014

As at the date of this announcement, chairman and non-executive director of the Company is Mr. Cheung King Shek; executive director of the Company is Mr. Cheung King Fung Sunny; non-executive directors of the Company are Mr. Cheung King Shan and Mr. Cheung King Chuen Bobby; and independent non-executive directors of the Company are Mr. Fong Ping, Ms. Kwok Yuen Man Marisa and Mr. Chu Kin Wang Peleus.

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; (ii) there are no other matters the omission of which would make any statement herein or in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the “Latest Company Announcements” page on the GEM website at <http://www.hkgem.com> for at least 7 days from the day of its posting. This announcement will also be published on the Company’s website at <http://www.tso.cc>.