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Telecom Digital Holdings Limited
電訊數碼控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 6033)

SUPPLEMENTAL ANNOUNCEMENT CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of Telecom Digital Holdings Limited (the “Company”) dated 1 April 2021 (the “Announcement”) in relation to the transactions with (1) East-Asia Group, (2) TSO and (3) Sun Asia Group. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

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

PRICING POLICY AND MECHANISMS IN RELATION TO THE CONTINUING CONNECTED TRANSACTIONS

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

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

(1) TRANSACTIONS WITH EAST-ASIA GROUP

(i) 2021/22 Tenancy Agreements and 2021/22 Licence Agreements

The Group has been leasing properties in Hong Kong and China from certain subsidiaries of East-Asia for the use by the Group as head office, shops, cell sites and car parks for logistic team. The monthly rentals under the tenancy agreements and licence agreements, which were determined with reference to the prevailing market rentals of comparable properties in the nearby locations, were set out in the respective tenancy agreements and licence agreements.

The Group paid the monthly rental in accordance with the tenancy agreements and licence agreements, and in the same manner as the tenancy agreements and licence agreements with independent third parties.

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

(ii) Provision of properties refurbishment, repair and maintenance services by SCL to TDS

SCL has been providing services to TDS for properties refurbishment, repair and maintenance for the retail shops of the Group. In consideration for such services, TDS will pay a fixed monthly service fee of HK\$60,000 to SCL which is determined with reference to the prevailing market rate of the similar services in market for the works to be required by the Group. The service fees charged by SCL shall be fair and reasonable and shall be based on normal commercial terms and on an arm's length basis. The Group will consult with no less than two independent third parties for quotations and market transaction prices of the same type of services.

Implications under the Listing Rules

Pursuant to HKFRS 16 "Leases", the Company will recognise leases that having a lease term of 12 months or less as short-term leases. Accordingly, the rental payment and licence fee to be made by the Group under the tenancy agreements and licence agreements will be recognised as expenses in the consolidated statement of profit or loss of the Group. As such, the transactions contemplated under the tenancy agreements and licence agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

(2) TRANSACTIONS WITH TSO

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

TSO has been providing repair and refurbishment services for pagers to TDD since 2013. The service fees charged by TSO shall be fair and reasonable and shall be based on normal commercial terms and on an arm's length basis. The service fees are calculated on a "per device" basis and are determined by TSO and TDD on a cost plus basis. TSO estimated the cost primarily comprising (i) the labour costs and overhead costs with reference to the complexity and time of work processes required in the repair and refurbishment; (ii) the number of work orders; (iii) the number of staff required and their salaries and (iv) the rental and overhead of the requested work space in the relevant workshops and service centre. After arriving at an estimated cost, TSO added a mark-up in the range of the then prevailing markups charged by TSO to independent third parties for comparable repair and refurbishment services.

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

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

(c) Provision of logistic services to TSO by TSN

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

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

TSO has been providing repair and refurbishment services for a brand of mobile phones to D1 since 1 April 2019. The service fees shall be determined at arm's length negotiation between the parties on a cost plus basis and are calculated on a "per mobile phone" basis. TSO estimated the cost primarily comprising (i) the labour costs and overhead costs, with reference to the complexity and time of work processes required in the repair and refurbishment; (ii) the number of work orders; (iii) the number of staff required and their salaries and (iv) the rental and overhead of the requested work space in the relevant workshops and service centre. After arriving at an estimated cost, TSO added a mark-up in the range of the then prevailing mark-ups charged by TSO to independent third parties for comparable repair and refurbishment services.

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

TSO has been providing grading and refurbishment services for used mobile phones trade in by TDS since 1 November 2019. The service fees shall be determined at arm's length negotiation between the parties on a cost plus basis and are calculated on a "per mobile phone" basis. TSO estimated the cost primarily comprising (i) the labour costs and overhead costs, with reference to the complexity and time of work processes required in the repair and refurbishment; (ii) the number of work orders; (iii) the number of staff required and their salaries and (iv) the rental and overhead of the requested work space in the relevant workshops and service centre. After arriving at an estimated cost, TSO added a markup in the range of the then prevailing mark-ups charged by TSO to independent third parties for comparable grading and refurbishment services.

(3) TRANSACTIONS WITH SUN ASIA GROUP

(i) Leasing of a property by CTL to TDKS

CTL will continue to lease the property 16 to TDKS as office for a term of one year commencing from 1 April 2021. The rental was determined with reference to the prevailing market rent of comparable properties in nearby location. TDKS paid the monthly rental in accordance with the tenancy agreement and in the same manner as the tenancy agreement with independent third parties.

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

(ii) Provision of steaming real-time quote services by TDD to TDKS

TDD shares the steaming real-time quote services provided by HKEx Information Services Limited with TDKS via mobile applications. The fee shall be determined at arm's length negotiation between the parties and is calculated on a per-user basis with reference to the prevailing market rate of the said services. The market price of the services shall be determined according to the price charged by TDD to independent third parties for the provision of same kind of services.

(iii) Provision of IT support services by TDS to TDKS and TDKC

TDS assists TDKS and TDKC to develop software applications and provide related information technology support. In consideration for such services, TDS receives a fixed monthly service fee determined with reference to the remuneration cost of the relevant personnel designated for the provision of the IT support. The monthly service fees of HK\$50,000 would be received from each of TDKS and TDKC for such services.

(iv) Leasing of a property by CKKP to CKKCK

CKKP will continue to lease the property 17 to CKKCK as food factory for a term of one year commencing from 1 April 2021. The rental was determined with reference to the prevailing market rent of comparable properties in nearby location. CKKCK paid the monthly rental in accordance with the tenancy agreement and in the same manner as the tenancy agreement with independent third parties.

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

(v) Sales of Mango Mall's products to TDKS and KRL Group

TDKS and KRL Group launched a promotion programme. Customers who meet the requirements will be rewarded during the promotion period. TDKS and KRL Group purchase Mango Mall's products for such promotion programme. The selling prices of the products which are sold by Mango Mall to TDKS and KRL Group are same as the selling prices of those products offered by Mango Mall to other independent external customers. The annual sales amounts for the year ending 31 March 2022 is expected to be HK\$1,000,000, which is determined based on the forecast and estimation on the numbers of eligible customers of TDKS and KRL Group.

(vi) Consignment of Cheung Kung Koon's festive products by Mango Mall from KRL Group

Mango Mall has allowed KRL Group to sell the festive food products in the brand of Cheung Kung Koon at the online shopping platform and retail shops of the Group on a consignment basis in consideration of a consignment fee. The consignment fee, which is based on a fixed percentage, ranging from 6% to 22%, of the selling price of the consigned goods, shall be paid by KRL Group to Mango Mall for the consignment arrangement. Such consignment fee has been determined by KRL Group and Mango Mall with reference to the consignment fees, which also amount to fixed percentages of the selling prices of the consigned goods, charged by the Group to independent third parties which sell their comparable consigned goods on the online shopping platform of the Group; and if there are no comparable consigned goods, the gross profit margins of the sales of other comparable food products by the Group on its online shopping platform would be taken.

(vii) Purchase of face masks and disinfection products by Mango Mall from YoHm

On 1 April 2021, Mango Mall commences business transactions with YoHm in which Mango Mall would purchase face masks and disinfection products from YoHm for sales on the online shopping platform and retail shops of the Group. The prices of the products are determined by Mango Mall and YoHm from time to time on an arm's length basis and with reference to the prevailing market rates of similar products. In this regard, the project manager and the accounting manager of Mango Mall are designated to be responsible to monitor the purchase price and ensure that the purchase price is comparable to the prevailing market rate of same or similar products and the terms of the transaction (including the market rates) are no less favourable than the terms offered to the Group from independent third parties. The Group will get no less than two quotations from independent

third parties providing the same kind of products under normal commercial terms for reference.

Internal control procedures

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

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

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

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

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

Hong Kong, 26 April 2021

As at the date of this announcement, the executive Directors are Mr. Cheung King Shek, Mr. Cheung King Shan, Mr. Cheung King Chuen Bobby, Mr. Cheung King Fung Sunny, Mr. Wong Wai Man and Ms. Mok Ngan Chu, and the independent non-executive Directors are Mr. Lam Yu Lung, Mr. Lau Hing Wah and Mr. Lo Kam Wing.

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