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DIRECTEL HOLDINGS LIMITED

直通電訊控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8337)

**A) SUPPLEMENTAL AGREEMENT IN RELATION TO THE
DISCLOSEABLE TRANSACTION INVOLVING THE ISSUE OF
CONSIDERATION SHARES UNDER GENERAL MANDATE IN
RELATION TO THE ACQUISITION OF 100% ISSUED SHARE
CAPITAL IN THE TARGET;**

AND

B) CLARIFICATION ANNOUNCEMENT

Reference is made to the announcement made by the Company on 18 July 2017 (the “**Announcement**”) in relation to a discloseable transaction involving the acquisition of 100% issued share capital in the Target. Terms used herein shall have the same meanings as defined in the Announcement unless otherwise specified.

A) SUPPLEMENTAL AGREEMENT

On 5 September 2017, after trading hours, the Vendor and the Purchaser entered into a supplemental agreement to the Sale and Purchase Agreement (the “**Supplemental Agreement**”), pursuant to which the following terms of the Sale and Purchase Agreement have been amended:

(1) The consideration and adjustment for the consideration of the Acquisition

The Vendor and the Purchaser have agreed to revise the total consideration of the Acquisition to HK\$50,000,000 (subject to adjustment as discussed below),

which is to be satisfied by (i) a cash payment of HK\$10,000,000 at the Completion; and (ii) the Purchaser procuring the Company to allot and issue not more than 300,300,300 shares of HK\$0.01 each in the Company (the “**Consideration Shares**”) credited as fully paid at the Issue Price to the Vendor in the following manner, subject to the Company receiving the listing approval from the Listing Committee for the listing of, and permission to deal in, the Consideration Shares:-

*In the event where the Revenue Guarantee is fully fulfilled within the period from the Completion to 31 December 2020 (“**Scenario 1**”)*

The Purchaser shall procure the Company to allot and issue 300,300,300 Consideration Shares at the Issue Price to the Vendor within 60 Business Days immediately following the issue of the audited consolidated financial statements of the Target for the relevant financial year in which the Revenue Guarantee is fulfilled, in accordance with the terms and conditions stipulated under the Sale and Purchase Agreement.

*In the event where the aggregated audited consolidated revenue arising from the ordinary course of business (excluding non-operating income and extraordinary income) of the Target for the period from the Completion to 31 December 2020 is less than the Revenue Guarantee (“**Scenario 2**”)*

The Consideration shall be adjusted in the following manner (the “**Adjustment**”):-

- the Purchaser shall procure the Company to allot and issue to the Vendor such number of Consideration Shares at the Issue Price within 60 days following the date when the audited consolidated financial statements of the Target for the financial year ending 31 December 2020 is issued in accordance with the following formula:

$$A = \text{HK\$}50,000,000 \times \left(\frac{B}{\text{RMB } 200,000,000} \right) - \text{HK\$}10,000,000$$

Where:

A = the monetary amount of the Consideration Shares, in Hong Kong Dollars, to be allotted and issued by the Company, which, for the avoidance of doubt, shall not be more than HK\$40,000,000

B = the aggregated audited consolidated revenue of the Target from the Completion to 31 December 2020

The number of Consideration Shares to be allotted and issued shall equal to A divided by the Issue Price.

- in the event that A is of negative value, the Vendor shall repay the absolute amount of A to the Purchaser in Hong Kong Dollars within 30 days following the date when the audited consolidated financial statements of the Target for the year ending 31 December 2020 is issued. For the avoidance of doubt, such absolute amount shall not exceed HK\$10,000,000

If the Company fails to obtain the listing approval for the Consideration Shares, the Purchaser shall settle the outstanding amount of the Consideration (subject to Adjustment) by cash within 30 business days upon receiving notification that the listing approval is not granted no matter under Scenario 1 or Scenario 2.

In any event, the total number of Consideration Shares to be allotted and issued to the Vendor shall not exceed 300,300,300 Shares. Assuming there is no Adjustment and the Company receiving the listing approval from the Listing Committee for the Consideration Shares, the maximum number of Consideration Shares comprising 300,300,300 Shares represents (i) approximately 9.65% of the existing issued share capital of the Company as at the date of this announcement; and (ii) approximately 8.80% of the issued share capital of the Company as enlarged by the allotment and issue of all the Consideration Shares.

For the basis of determination of the consideration, kindly refer to the paragraph headed “B) Clarification — (3) Basis of determination of the consideration” below.

(2) Conditions Precedents

Pursuant to the Supplemental Agreement, it is no longer a conditions precedent to Completion for the Company to receive the listing approval from the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

The Company will issue the Consideration Shares subject to such listing approval. As at the date of this announcement, the Company has not made an application for, and the Listing Committee has not granted, the listing approval for the Consideration Shares.

(3) Long Stop Date

In light of the entering into of the Supplemental Agreement, the Vendor and the Purchaser agreed to extend the Long Stop Date to 18 October 2017.

Save for the aforementioned, all other terms and conditions of the Sale and Purchase Agreement remain unchanged.

B) CLARIFICATION

The Company would like to clarify the following matters so as to give further information to the Shareholders and potential investors of the Shares:

(1) Business model of the Target Group and further details of CEPA qualification obtained by the Group

Since 2003, the Target Group has been engaged in the distribution of post-paid telecommunications products (including fixed line and mobile telecommunications products) supplied by a major PRC telecommunications operator (“**Telco**”) and received commission as income. The Company is given to understand that the Target Group has decided recently to change its business model by gradually stepping out of the declining post-paid telecommunications market and focusing on the pre-paid telecommunications business. Noticing the strong demand for local and roaming telecommunications services from inbound and outbound travelers in the PRC respectively, the Target Group strategically sets inbound and outbound travelers as its target end users for its pre-paid telecommunications products. Besides, the Target Group is diversifying its business to distribution of mobile phones by leveraging on its established distribution network. The business license of GZDT, a wholly-owned subsidiary of the Target, allows GZDT to sell local and roaming pre-paid products and mobile phones in the PRC.

As part of the Group’s business plan to expand its business geographically into the PRC, a wholly-owned subsidiary of the Company has been recently qualified as a Hong Kong Service Supplier to supply (i) value-added telecommunications services and (ii) telecommunications services — calling card under its CEPA qualification. Under CEPA, the value-added telecommunications services that can be provided by a Hong Kong Service Supplier include for example, internet data center services, store and forward services, online data processing and transaction processing services, while qualification to supply telecommunications services — calling card allows the supplier to distribute fixed and/or mobile telephone service cards.

(2) Background of the Acquisition

As the Group intends to expand its business geographically into the PRC by distributing its products through local distributors similar to its business model in Hong Kong, the Group began to look for telecommunications products distributors in Guangdong province as acquisition targets in September 2016 and eventually considered the Target as a suitable acquisition target.

The Vendor has over 10 years' experience in the PRC telecommunications industry. The Company is acquainted with the Vendor since 2006, when GZDT retained services from a customer relationship management company that is owned and ultimately controlled by the chairman and non-executive director of the Company, Mr. Li Kin Shing.

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Vendor has no relationship, business or otherwise, with any connected persons of the Company, save for the above.

(3) Basis of determination of the consideration

As disclosed in the Announcement, the consideration has been determined with reference to factors including but not limited to (i) the customer base of the Target Group; (ii) the growth and potential prospect of the Target Group; (iii) the Revenue Guarantee; and (iv) the anticipated synergy to be created.

Customer base of the Target Group

As advised by the Target Group, it has contact with over 50 customers/sales channels in Guangzhou across various industries including telecommunications services/equipment agents/distributors, travel agents, automobile 4S shops, property agents/management companies, retail stores/chains and entertainment ventures.

Growth and potential prospect of the Target Group

Our Directors believe that there are strong growth potential and prospect of the Target Group, due to the growing demand for travel-focused pre-paid telecommunications products and mobile phones. According to the Statistics Bureau of Guangdong province, the number of inbound travelers into Guangdong province increased by approximately 5.8% annually to 35,265,532 in 2016. In addition, according to China Tourism Academy and Ctrip, the number of outbound travelers in the PRC increased to approximately 122 million in 2016. Similarly, according to Statista, the smartphone sales value and number of smartphone users in China increased to approximately US\$133.6 billion and 563.1 million people in 2016. Given the popularity of smartphones and the entailed increase usage of mobile and data services, there is a solid prospect for growth in demand of the Target Group's pre-paid telecommunications products and mobile products.

Revenue Guarantee

In addition to the above, the Directors made reference to the price to revenue ratio of three Hong Kong listed PRC telecommunications operators, which have similar principal business and geographical location of the Target Group, in estimating the consideration. Based on the Revenue Guarantee of RMB 200 million, the average revenue of the Target Group generated for each of the three years ending 31 December 2020 is approximately RMB 67 million (approximately HK\$77 million). As such, consideration of HK\$60 million in the Sale and Purchase Agreement, or HK\$50 million as adjusted by the Supplemental Agreement, implies a forward price to revenue ratio of approximately 0.65 times to 0.78 times, which is lower than the average forward price to revenue ratio of the listed comparables of over 1 time as at the date of this announcement.

Anticipated synergy

Through acquiring the Target Group, the Group could immediately leverage on the established distribution network and sales channels of the Target Group to penetrate into the PRC market through the distribution of the Group's mobile and data roaming pre-paid products by the Target Group. In the long term, the Group can utilize the Target Group as a platform to further develop in markets beyond Guangdong province in the PRC by acquiring suitable targets.

According to the Supplemental Agreement, it is agreed by the Purchaser and Vendor to lower the consideration of the Acquisition from HK\$60 million to HK\$50 million. Under the Sale and Purchase Agreement, other than the payment of HK\$10 million in cash at Completion, the remaining consideration should be entirely settled by Consideration Shares. However, under the Supplemental Agreement, in case the Company fails to obtain the listing approval for the Consideration Shares, the remaining consideration will be entirely settled in cash. In view of this, the parties agreed to lower the consideration to factor in the time value of the potential cash settlement in the future.

(4) Revenue guarantee

The Revenue Guarantee was agreed after arm's length negotiation between the Purchaser and the Vendor with reference to a revenue forecast of the Target Group for the three years ending 31 December 2020. The revenue forecast was prepared by the Target Group based on the forecasted revenue to be generated from (i) selling and distribution of pre-paid telecommunications products (such as local pre-paid cards and roaming pre-paid cards); and (ii) proposed mobile phone distribution business in the PRC.

The forecasted revenue generated from the selling and distribution of pre-paid telecommunications products were estimated principally based on (i) the estimated average fee per card, which in turn is principally determined either with reference to the retail price suggested by the supplier of such pre-paid cards or current market prices of comparable products in the market; and (ii) the estimated number of cards sold, which in turn is principally determined with reference to the existing distribution contracts that the Target Group has entered into with its sales channels, recent discussion with various sales channels of the Target Group, the expected sales channel expansion plan of the Target Group, seasonal factors and the expected increasing trend in demand of pre-paid telecommunications products in the PRC, especially from inbound and outbound travelers.

The forecasted revenue generated from the proposed mobile phone distribution business were estimated principally based on (i) the estimated average unit price per phone, which is principally determined with reference to the average wholesale price of the target mobile phones that the Target Group plans to carry; and (ii) the estimated number of phones sold, which is principally determined with reference to the recent discussion with an experienced telecommunications equipment distributor in the PRC on historical and future sales and product trend, as well as the expected number of phones sourced from suppliers.

The Target Group has accumulated over 13 years of operating history and established strong network with various sales channels in Guangzhou and good relationship with the Telco. Therefore, the Directors are of the view that the established network and reputation of the Target Group in the Guangdong telecommunications market as well as the long term business relationship with the Telco provide a foundation for it to develop the pre-paid telecommunications business and mobile phones distribution business as well as to realize its sales channel expansion plan. As at the date of this announcement, the Target Group has already successfully secured contracts with six sales channels/distributors, of which, (i) there are two contracts with local travel agents which include a term that each travel agent has committed subscription of not less than RMB20 million worth of mobile and data services in aggregate for the coming two years from July 2017; (ii) there is a contract with a telecommunications service distributor which includes a term that the relevant distributor has agreed to procure not less than RMB5 million worth of annual sales of telecommunications services provided by the Target Group during the three years contract term from July 2017; and (iii) there is a contract with a telecommunications equipment distributor which includes a term that the relevant distributor has agreed to

procure annual sales of mobile phones of not less than RMB36 million throughout the three years ending 31 December 2020. Taking into account the above, together with the strong potential for the travel focused pre-paid telecommunications business and mobile phones distribution business, the Directors are of the view that the Revenue Guarantee is justifiable and achievable, and the assumptions used in the forecast were fair and reasonable.

(5) Compliance with the public float requirement under Rule 11.23(7) of the GEM Listing Rules when the Consideration Shares are due to be issued

The Company clarifies that the Company will not issue such number of Consideration Shares which would result in breach of Rule 11.23(7) of the GEM Listing Rules. If necessary, the Company will take precautionary steps, including but not limited to (i) issuing further Shares to the public by placing; or (ii) procuring the substantial shareholder (as defined in the GEM Listing Rules) to sell existing Shares to the public, before such number of Consideration Shares are issued to ensure compliance with Rule 11.23(7) of the GEM Listing Rules.

The company secretary of the Company will be responsible for monitoring the compliance of the Revenue Guarantee who will then advise the Board the financial results of the Target Group and the number of Consideration Shares to be issued. In any event, before the Consideration Shares are issued, the entire Board (including independent non-executive Director) will need to approve the issuance and only an independent non-executive Director will have the authority to give instruction to the Company's share registrar in Hong Kong for and on behalf of the Company for issuing the said Consideration Shares and updating of the register of members.

Further announcement will be published by the Company when the Consideration Shares are issued which will set out the number of Consideration Shares to be issued and the calculation basis.

As the Completion is subject to the satisfaction and/or waiver, where applicable, of the Conditions Precedent set out in the Sale and Purchase Agreement (as amended by the Supplemental Agreement), the Acquisition may or may not proceed to Completion. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares or any securities of the Company.

By Order of the Board
Directel Holdings Limited
Pang Kwok Chau
Executive Director

Hong Kong, 5 September 2017

In this announcement, for the purpose of illustration only, amounts quoted in HK\$ have been converted into RMB at the rate of HK\$1.00 to RMB0.87. Such exchange rate has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

As at the date of this announcement, the executive Directors are Mr. Pang Kwok Chau and Mr. Li Wang, the non-executive Directors are Mr. Li Kin Shing, Mr. Wong Kin Wa and Mr. Hu Tiejun, the independent non-executive Directors are Mr. Chen Xue Dao, Ms. Lee Man Yee, Maggie and Mr. Liu Kejun.

This announcement, for which the Directors 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, 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 GEM website at www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting. This announcement will also be posted on the website of the Company at www.directel.hk.