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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)

SECOND SUPPLEMENTAL AGREEMENT IN RELATION TO THE DISCLOSEABLE TRANSACTION IN RELATION TO THE ACQUISITION OF 100% ISSUED SHARE CAPITAL IN THE TARGET

Reference is made to the announcements made by Directel Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) on 18 July 2017, 5 September 2017 and 8 September 2017 (together the “**Announcements**”) 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 Announcements unless otherwise specified.

SECOND SUPPLEMENTAL AGREEMENT

On 24 December 2020, after trading hours, the Vendor and the Purchaser entered into a second supplemental agreement (the “**Second Supplemental Agreement**”) to the Sale and Purchase Agreement and the Supplemental Agreement, pursuant to which, among other terms of the Sale and Purchase Agreement and the Supplemental Agreement being amended, the total consideration of the Acquisition was downward adjusted to HK\$10,000,000.

Background

As stated in the Announcements, pursuant to the Sale and Purchase Agreement and the Supplemental Agreement, the Vendor and the Purchaser have agreed, among others, sale and purchase of the entire issued share capital of the Target for a total consideration HK\$50,000,000 (subject to certain adjustments depending on whether the Revenue Guarantee will be fulfilled for the period from the Completion Date to 31 December 2020), 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 certain Consideration Shares credited as fully paid at the Issue Price to the Vendor 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, subject to the Company receiving the listing approval from the Listing Committee for the listing of, and permission to deal in, the Consideration Shares. Completion of the Acquisition took place on 8 September 2017.

In order to enhance the Group's rights and interests under the Sale and Purchase Agreement and the Supplemental Agreement, after taking into consideration the financial performance of the Target Group since the Completion and the latest financial position and business prospect of the Target Group, the Group started amicable negotiation with the Vendor to re-determine the total consideration of the Acquisition.

Amendments to the Sale and Purchase Agreement and the Supplemental Agreement: Downward adjustment of the consideration for the Acquisition

Pursuant to the Second Supplemental Agreement, the Vendor and the Purchaser have agreed to revise the total consideration of the Acquisition to HK\$10,000,000 and agreed that such total consideration has already been settled by the Purchaser in full by cash at the Completion, which has taken place on 8 September 2017. The parties to the Second Supplemental Agreement agreed that there is no outstanding consideration to be paid by the Purchaser for the Acquisition. Pursuant to the Second Supplemental Agreement, references to the Revenue Guarantee, adjustment to the consideration of the Acquisition and issuance of Consideration Shares were deleted in the Sale and Purchase Agreement and the Supplemental Agreement.

Basis of re-determination of the consideration for the Acquisition

As disclosed in the Announcements, previous consideration for the Acquisition was 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.

Based on the unaudited consolidated account of the Target Group, for the period from the Completion Date to 31 October 2020, the aggregate unaudited consolidated revenue arising from the ordinary course of business (excluding non-operating income and extraordinary income) of the Target Group was approximately HK\$198 million (equivalent to approximately RMB171.8 million), which only reached approximately 85.9% of the Revenue Guarantee of RMB200 million.

Further, as anticipated at the time of entering into the Sale and Purchase Agreement and the Supplemental Agreement, the Target Group was expected to engage in a number of profitable businesses for the period from the Completion Date to 31 December 2020, namely (i) the provision of mobile and data top-up services in the PRC ("**Top-up Services**"); (ii) mobile phones and electronic products distribution business in the PRC ("**Mobile Distribution**"); (iii) selling and distribution of pre-paid telecommunications products (such as local pre-paid cards and roaming pre-paid cards to inbound and outbound travellers in the PRC) ("**Pre-paid Telecommunications Products**"); and (iv) distribution of post-paid telecommunications products (including fixed line and mobile telecommunications products) supplied by a major PRC telecommunications operator and receiving commission as income ("**Post-paid Telecommunications Products**"). During the period from the Completion Date to 31 October 2020, due to various reasons including: (a) the social unrest in Hong Kong since 2019; (b) the outbreak of novel coronavirus (COVID-19) since early 2020 in the PRC; and (c) the general challenging market environment for the Target Group's travelled-focused businesses; both the profit margin and revenue contributed by the businesses of (i) Top-up Services; (ii) Mobile Distribution; and (iii) Pre-paid Telecommunications Products, had been significantly lower than originally forecasted; while the business of Post-paid Telecommunications Products had failed to launch at all. As such, based on the unaudited consolidated account of the Target Group, for the period from the Completion Date to 31 October 2020, the Target Group recorded a net loss as compared to the forecasted net profit at the time of entering the Sale and Purchase Agreement and the Supplemental Agreement.

In addition, due to (i) the actual performance of the Target Group being unable to meet expectations; and (ii) the deteriorating performance of the Target Group in the business forecast, the Group has fully impaired the carrying amount of goodwill of approximately HK\$28,061,000 and intangible assets of approximately HK\$2,434,000 arising from the Acquisition for the year ended 31 December 2019. For details, please refer to the Annual Report 2019 of the Company published on 31 March 2020.

The new consideration of the Acquisition, being HK\$10,000,000, was determined after arm's length negotiations between the Vendor and Purchaser with reference to (i) the expected inability of the Target to meet the Revenue Guarantee; (ii) consistently worse than forecasted performance of the Target Group since the Completion as above mentioned; and (iii) the anticipated growth and potential prospect of the Target Group in its business forecast.

REASONS AND BENEFITS FOR ENTERING INTO THE SECOND SUPPLEMENTAL AGREEMENT

As at 30 September 2020, the Group recognised contingent consideration payables in relation to the Acquisition of approximately HK\$38,027,000 as a financial liability under "contingent consideration payables" in its financial statements. The amendments as stipulated in the Second Supplemental Agreement provide for a significant reduction of the consideration for the Acquisition and discharge the Group from the payment of any outstanding consideration payable for the Acquisition. As a result, a fair value gain of HK\$38,027,000 on contingent consideration payables would be recognised in the consolidated statement of profit or loss and other comprehensive income for the year ending 31 December 2020. Therefore, the Directors consider that the terms of the Acquisition (as amended by the Second Supplemental Agreement) are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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

Hong Kong, 24 December 2020

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 of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange 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.