

ETS Group Limited

易通訊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8031



Third Quarterly Report 2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

This report, for which the directors (the “Directors”) of ETS Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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 report 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 report misleading.

FINANCIAL SUMMARY

The Group's total revenue for the nine months ended 30 September 2016 was approximately HK\$108,901,000, representing an increase of approximately 2% as compared with the total revenue of approximately HK\$106,437,000 for the corresponding period in 2015.

Profit attributable to owners of the Company for the nine months ended 30 September 2016 was approximately HK\$3,883,000, representing a decrease of approximately 52% as compared with the profit attributable to owners of the Company of approximately HK\$8,144,000 for the corresponding period in 2015.

Earnings per share for the nine months ended 30 September 2016 was approximately HK1.4 cents (nine months ended 30 September 2015: approximately HK2.9 cents).

UNAUDITED RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and nine months ended 30 September 2016 together with the comparative figures for the corresponding periods ended 30 September 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the three months and nine months ended 30 September 2016

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	3	36,711	36,268	108,901	106,437
Other income		181	183	516	557
Other gains/(losses) – net		236	(948)	268	(1,102)
Employee benefits expenses		(20,249)	(21,193)	(62,120)	(59,439)
Depreciation and amortization		(2,016)	(2,301)	(6,171)	(5,950)
Other operating expenses		(12,810)	(9,310)	(35,608)	(30,117)
Operating profit		2,053	2,699	5,786	10,386
Finance costs		(157)	(166)	(377)	(504)
Profit before tax		1,896	2,533	5,409	9,882
Income tax expense	4	(622)	(450)	(1,526)	(1,738)
Profit for the period		1,274	2,083	3,883	8,144
Total comprehensive income for the period		1,274	2,083	3,883	8,144
Profit attributable to owners of the Company		1,274	2,083	3,883	8,144
Total comprehensive income attributable to owners of the Company		1,274	2,083	3,883	8,144
Earnings per share attributable to owners of the Company – Basic and diluted (HK cents)	6	0.5	0.7	1.4	2.9

NOTES TO THE FINANCIAL INFORMATION

For the nine months ended 30 September 2016

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 29 June 2011 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The shares of the Company have been listed on the GEM of the Stock Exchange with effect from 9 January 2012 (the “Listing Date”).

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The Group’s unaudited condensed consolidated third quarterly financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies and basis adopted in preparing the unaudited condensed consolidated third quarterly financial information were consistent with those applied for the consolidated financial statements of the Group for the year ended 31 December 2015.

The HKICPA has issued certain new and revised Hong Kong Financial Reporting Standards (“HKFRSs”). For those which are effective for accounting periods beginning on or after 1 January 2016, the adoption has no material impact on how the results and financial positions of the Group for the current and prior periods have been prepared and presented. For those which are not yet effective and have not been early adopted in prior accounting periods, the Group is in the process of assessing their impact on the Group’s results and financial position.

3. REVENUE

	Three months ended 30 September		Nine months ended 30 September	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Outsourcing inbound contact service	3,659	3,032	10,251	9,981
Outsourcing outbound contact service	14,188	14,057	45,078	44,418
Staff insourcing service	10,931	8,294	31,157	23,412
Contact service centre facilities management service	6,619	6,701	17,749	21,083
Others*	1,314	4,184	4,666	7,543
	36,711	36,268	108,901	106,437

* Principally comprises licencing, sales of system and software and system maintenance.

4. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at a rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong for the nine months period ended 30 September 2016. Taxation on overseas profits has been calculated on the estimated assessable profit for the nine months period ended 30 September 2016 at the rates of taxation prevailing in the countries in which the Group operates.

	Three months ended 30 September		Nine months ended 30 September	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Current income tax	622	450	1,526	1,738

No provision for deferred taxation has been made in the financial statements since there is no material timing difference.

5. INTERIM DIVIDENDS

Nine months ended 30 September

	2016 HK\$'000 (unaudited)	2015 HK\$'000 (audited)
Interim dividend declared and paid-nil (2015: HK0.45 cents) per ordinary share	-	1,260
	-	1,260

At a Board meeting held on 10 August 2015, the Directors resolved to pay a first interim dividend for the six months ended 30 June 2015 of HK0.45 cents per ordinary share in cash. The interim dividend was paid to the shareholders of the Company on 4 September 2015.

The Board does not recommend the payment of a second interim dividend for the nine months ended 30 September 2016 (2015: nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30 September 2016 is based on (i) the unaudited consolidated profit attributable to the owners of the Company of approximately HK\$3,883,000 (nine months ended 30 September 2015: approximately HK\$8,144,000) and (ii) the weighted average number of 280,000,000 ordinary shares issued during the nine months ended 30 September 2016 (during the nine months ended 30 September 2015: the weighted average number of 280,000,000 ordinary shares issued).

The diluted earnings per share is equal to the basic earnings per share as there were no dilutive potential ordinary shares in issue during the nine months ended 30 September 2016 and nine months ended 30 September 2015.

7. MOVEMENT OF RESERVES

	Attributable to owners of the Company				Total HK\$'000
	Share premium HK\$'000	Merger reserve HK\$'000	Translation HK\$'000	Retained profits HK\$'000	
Balance at 1 January 2015 (audited)	25,238	25,624	–	51,127	101,989
Profit for the period	–	–	–	8,144	8,144
Total other comprehensive income for the period	–	–	–	–	–
Total comprehensive income for the period	–	–	–	8,144	8,144
Final dividend paid	–	–	–	(4,200)	(4,200)
Interim dividend paid	–	–	–	(1,260)	(1,260)
Balance at 30 September 2015 (unaudited)	25,238	25,624	–	53,811	104,673
Balance at 1 January 2016 (audited)	25,238	25,624	–	54,857	105,719
Profit for the period	–	–	–	3,883	3,883
Total other comprehensive income for the period	–	–	–	–	–
Total comprehensive income for the period	–	–	–	3,883	3,883
Final dividend paid	–	–	–	(2,688)	(2,688)
Interim dividend paid	–	–	–	–	–
Balance at 30 September 2016 (unaudited)	25,238	25,624	–	56,052	106,914

8. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

The unaudited condensed consolidated results of the Group for the nine months ended 30 September 2016 were approved by the Board on 7 November 2016.

DIVIDEND

The Board does not recommend the payment of a second interim dividend for the nine months ended 30 September 2016 (2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial and Business Review

The Group is continuously engaged in the business of providing comprehensive multi-media contact services and contact centre system. The principle activities of the Group include outsourcing inbound contact service, outsourcing outbound contact service, staff insourcing service and contact service centre facilities management service.

For the nine months ended 30 September 2016, the Group's unaudited total revenue was approximately HK\$108.9 million, representing an increase of approximately HK\$2.5 million as compared with the total revenue of the corresponding period in 2015 (2015: approximately HK\$106.4 million). The increase was mainly due to the stable increasing trend of the revenue of outsourcing outbound contact service and staff insourcing service. The outsourcing inbound contact service, outsourcing outbound contact service, staff insourcing service, contact service centre facilities management service and other services accounted for approximately 9%, 42%, 29%, 16% and 4% of the Group's unaudited total revenue for the nine months ended 30 September 2016 respectively.

The unaudited employee benefits expenses increased from approximately HK\$59.4 million for the nine months ended 30 September 2015 to approximately HK\$62.1 million for the nine months ended 30 September 2016. The increase was mainly attributable to the increased employee benefits expenses costs incurred for operating the business units in Hong Kong and a headcount increase of insourced staff during the period. The unaudited other operating expenses increased by approximately HK\$5.5 million from approximately HK\$30.1 million for the nine months ended 30 September 2015 to approximately HK\$35.6 million for the nine months ended 30 September 2016. The increase of other operating expenses was mainly attributable to increasing costs in the insourcing fee for contact service staff from the associate company.

The Group's unaudited depreciation and amortization expenses increased by approximately 4% from approximately HK\$6.0 million for the nine months ended 30 September 2015 to approximately HK\$6.2 million for the nine months ended 30 September 2016, which was mainly due to the addition of fixed assets after the relocation of the office in the period. The Group's unaudited finance costs for the nine months ended 30 September 2016 amounted to approximately HK\$0.4 million, representing a decrease of approximately 25% as compared to that of the corresponding period in 2015 (2015: approximately HK\$0.5 million) due to a decrease in bank borrowings.

With the increase of employee benefits expenses and the increase of other operating expenses in the period, the unaudited profit attributable to the owners of the Company decreased by approximately 52% from approximately HK\$8.1 million for the nine months ended 30 September 2015 to approximately HK\$3.9 million for the nine months ended 30 September 2016.

PROSPECTS

Data privacy issue as well as more stringent control from regulatory bodies on data and credit control continue to impact the productivity of outbound telemarketing services, which in turn drives up the cost for providing the service. The Group seeks to improve the productivity through specific skill and mindset training as well as implementation of system tools that can address the security issues.

The Group still experiences an increasing demand in staff insourcing service from different industries, and has expanded our resources to cater for the growth and fully capture the opportunity.

As a new business development other than our core contact centre services, the Group has continued to make progress on the preparation of the securities business in order to promptly capture the opportunity once the type 1 (dealing in securities) and type 4 (advising on securities) licenses are being granted by the Securities and Futures Commission of Hong Kong. The Group anticipated that with the “Shenzhen-HK stock connect” going to be launched soon, the Hong Kong financial and securities market will enjoy further momentum in growth, and which represents better potential market to our future business.

LIQUIDITY

The Group adheres to a prudent financial management policy and has a healthy financial position. During the nine months under review, the Group financed our operations with internally generated cash flows and banking facilities provided by banks. As at 30 September 2016, the Group had cash and bank balances and pledged bank deposits of approximately HK\$38.4 million (2015: approximately HK\$21.9 million).

CORPORATE GOVERNANCE

The Company has complied with all the code provisions as set out in the Corporate Governance Code (the “Code”) in Appendix 15 to the GEM Listing Rules throughout the nine months period ended 30 September 2016 except for the code provision A.6.2(a) of the Code, details of which are set out below.

According to A.6.2(a) of the Code, the functions of non-executive directors should include participating in board meetings to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. During the period under review, Mr. Tang Shing Bor, a non-executive Director, was absent from the board meetings held during the period under review due to other important engagements in the relevant times.

CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specified enquiry of the Directors, all Directors confirmed that they have complied with the required standard of dealings concerning securities transactions for the nine months period ended 30 September 2016.

SHARE OPTION SCHEME

During the nine months ended 30 September 2016, no share option was granted, exercised, expired or lapsed under the share option scheme approved on 21 December 2011 (the "Share Option Scheme").

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from the Share Option Scheme, at no time during the nine months ended 30 September 2016 was any of the Company or any associated corporation a party to any arrangement to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age 18, had any right to subscribe for the Shares in, or debentures of, the Company, or had exercised any such rights.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The following Director and his close associate are considered to have interests in the following business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Mr. Tang Yiu Sing ("Mr. Tang") is an executive Director and Mr. Tang Shing Bor is a non-executive Director. Mr. Tang is a director and the ultimate beneficial owner of Stan Group (Holding) Limited ("Stan Group") which is engaged in, among others, the operation of a comprehensive business platform in Hong Kong, including but not limited to co-working space business, and Mr. Tang Shing Bor is the father of Mr. Tang. In this regard, Mr. Tang is considered to have interests in businesses which compete, or is likely to compete, either directly or indirectly, with the business of the Group.

Given the delineation in target customer, image, pricing segment and running model of the co-working space business of Stan Group and the Group's Elite Business Centre, and in particular, the Group's Elite Business Centre is located in a grade-A office building targeting multinational corporations and government authorities while the co-working space business of Stan Group is located in a revitalised industrial building targeting entrepreneurs and business start-ups, the Board considers that the potential competition is minimum and the interest of the Group is adequately protected. The co-working space business of the Stan Group and the Group's Elite Business Centre is operated and managed by two distinct management teams except for Mr. Tang as aforementioned is an executive Director and a director of Stan Group.

In order to further safeguard the interests of the Group, all Directors other than Mr. Tang and Mr. Tang Shing Bor, being Directors not interested in the potential competing business of Stan Group, will review on a regular basis the businesses and operations of the Group to ensure that its business are run on the basis that they are independent of, and at arm's length from, Stan Group.

Save as disclosed above, as at 30 September 2016, so far as the Directors are aware of, none of the Directors or the substantial/controlling shareholders of the Company has any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group for the nine month ended 30 September 2016.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND/OR ITS ASSOCIATED CORPORATIONS

As at 30 September 2016, the interests and short positions of the Directors and chief executives of the Company (the "Chief Executives") in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director or Chief Executive is taken or deemed to have under such provision of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register required to be kept by the Company, or which were required, pursuant to Securities Transactions by Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

Name of Directors/ Chief Executives	Capacity	Nature of interests	Number of shares/ underlying shares held	Percentage of the issued share capital of the Company as at 30 September 2016
Mr. Tang Shing Bor	Interest in a controlled corporation	Corporate interest	210,000,000 <i>(Note)</i>	75%

Note:

These interests were held by Million Top Enterprises Limited which is wholly and beneficially owned by Mr. Tang Shing Bor. Mr. Tang Shing Bor is therefore deemed to be interested in such shares by virtue of Part XV of the SFO.

Save as disclosed above, as at 30 September 2016, none of the Directors and/or Chief Executive had any other interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the Securities Transactions by Directors, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITION IN SHARES AND/OR UNDERLYING SHARES OF THE COMPANY

So far as is known to the Directors, as at 30 September 2016, the following persons (not being a Director or Chief Executive) who had interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under provision of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Long positions in the shares of the Company

Name of substantial shareholders	Capacity	Number of Shares/ underlying Shares held	Approximate percentage of the issued share capital of the Company as at 30 September 2016
Million Top Enterprises Limited (<i>Note</i>)	Beneficial owner	21,000,000	75%

Note:

Million Top Enterprises Limited is wholly and beneficially owned by Mr. Tang Shing Bor, a non-executive Director.

Save as disclosed above, as at 30 September 2016, the Directors were not aware of any other persons (other than Directors or Chief Executive) who had interests and/or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company pursuant to section 336 of the SFO, or who is directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

AUDIT COMMITTEE

The Company announced on 17 October 2016 that Mr. Ngan Chi Keung (“Mr. Ngan”), an independent non-executive Director (“INED”), passed away on 15 October 2016. Mr. Ngan was the chairman and a member of the Audit Committee.

Following the pass away of Mr. Ngan, the Company only has two INEDs, namely, Mr. Wong Sik Kei and Mr. Cheung Kong Ting and none of them have appropriate professional qualifications or accounting or related financial management expertise, and, therefore, does not meet the requirements under rules 5.05(1) and 5.05(2) of The GEM Listing Rules. The Company planned to appoint a new INED as soon as possible and in any event within the period specified in rule 5.06 of the GEM Listing Rules and is in the course of identifying a suitable candidate.

Further, Mr. Cheung Kong Ting was appointed as the chairman of the Audit Committee. As at the date of this report, the Audit Committee only comprises two INEDs and none of them have appropriate professional qualifications or accounting or related financial management expertise, and, therefore, the Company does not meet the requirements under rule 5.28 of the GEM Listing Rules. The Company will seek to comply with the requirements under rule 5.28 of the GEM Listing Rules as soon as possible.

The Audit Committee has reviewed the unaudited interim results of the Group for the nine months ended 30 September 2016 and is of the opinion that the accounting policies of the Group are in accordance with the generally accepted accounting practices in Hong Kong, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company did not redeem any of its listed securities, and neither did the Company nor any of its subsidiaries purchase or sell any of the listed securities of the Company for the nine months ended 30 September 2016.

By order of the Board
ETS Group Limited
Tang Yiu Sing
Executive Director and Chief Executive Officer

Hong Kong, 7 November 2016

As at the date of this report, the executive directors of the Company are Mr. Tang Yiu Sing and Mr. Yeung Ka Wing; the non-executive director of the Company is Mr. Tang Shing Bor and the independent non-executive directors of the Company are Mr. Wong Sik Kei and Mr. Cheung Kong Ting.