

ETS Group Limited

易通訊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8031



2017
FIRST QUARTERLY REPORT



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 three months ended 31 March 2017 was approximately HK\$35,772,000, which was similar to the total revenue of approximately HK\$35,819,000 for the corresponding period in 2016.

Profit attributable to owners of the Company for the three months ended 31 March 2017 was approximately HK\$710,000, representing a decrease of approximately 39.8% as compared with the profit attributable to owners of the Company of approximately HK\$1,180,000 for the corresponding period in 2016.

Earnings per share for the three months ended 31 March 2017 was approximately HK0.25 cents (three months ended 31 March 2016: approximately HK0.42 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 ended 31 March 2017 together with the comparative figures for the corresponding period ended 31 March 2016 as follows:

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

For the three months ended 31 March 2017

		Three months ended 31 March	
	Notes	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	3	35,772	35,819
Other income		135	201
Other gains – net		115	164
Employee benefits expenses		(21,134)	(21,144)
Depreciation and amortization		(2,353)	(2,131)
Other operating expenses		(11,133)	(11,331)
Operating profit		1,402	1,578
Finance costs		(110)	(83)
Profit before tax		1,292	1,495
Income tax expense	4	(582)	(315)
Profit for the period		710	1,180
Total comprehensive income for the period		710	1,180
Profit attributable to owners of the Company		710	1,180
Total comprehensive income attributable to owners of the Company		710	1,180
Earnings per share attributable to owners of the Company			
– Basic and diluted (HK cents)	5	0.25	0.42



NOTES TO THE FINANCIAL INFORMATION

For the three months ended 31 March 2017

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 first 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 first quarterly financial information were consistent with those applied for the consolidated financial statements of the Group for the year ended 31 December 2016.

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 2017, 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 31 March

	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Outsourcing inbound contact service	2,410	3,175
Outsourcing outbound contact service	15,284	14,824
Staff insourcing service	11,411	8,727
Contact service centre facilities management service	5,119	6,618
Others*	1,548	2,475
	35,772	35,819

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

4. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at a rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong for the three months period ended 31 March 2017.

	Three months ended 31 March	
	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Current income tax	582	315
Deferred income tax	-	-
	582	315

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

5. EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended 31 March 2017 is based on (i) the unaudited consolidated profit attributable to the owners of the Company of approximately HK\$710,000 (three months ended 31 March 2016: approximately HK\$1,180,000) and (ii) the weighted average number of 280,000,000 ordinary shares issued during the three months ended 31 March 2017 (during the three months ended 31 March 2016: 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 three months ended 31 March 2017 and three months ended 31 March 2016.



6. 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 2016 (audited)	25,238	25,624	-	54,857	105,719
Profit for the period	-	-	-	1,180	1,180
Total other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	1,180	1,180
Balance at 31 March 2016 (unaudited)	25,238	25,624	-	56,037	106,899
Balance at 1 January 2017 (audited)	25,238	25,624	-	56,983	107,845
Profit for the period	-	-	-	710	710
Total other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	710	710
Balance at 31 March 2017 (unaudited)	25,238	25,624	-	57,693	108,555

7. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

The unaudited condensed consolidated results of the Group for the three months ended 31 March 2017 were approved by the Board on 11 May 2017.



DIVIDEND

The Board does not recommend the payment of any interim dividend for the three months ended 31 March 2017 (three months ended 31 March 2016: 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. During this period, the Group recorded an improvement of the margin of our contact centre services business. However, the effect of the improvement was partially set off against the expenditure incurred for our new securities business. As a result, the Group recorded a decrease in our financial performance.

For the three months ended 31 March 2017, the Group recorded similar total revenue amounted to approximately HK\$35.8 million as compared with the total revenue of the corresponding period in 2016 (2016: approximately HK\$35.8 million). The outsourcing inbound contact service, outsourcing outbound contact service, staff insourcing service, contact service centre facilities management service and other services accounted for approximately 6.7%, 42.7%, 31.9%, 14.3% and 4.4% of the Group's unaudited total revenue for the three months ended 31 March 2017 respectively.

The Group recorded similar employee benefits expenses amounted to approximately HK\$21.1 million for the three months ended 31 March 2017 as compared with the corresponding period in 2016 (2016: approximately HK\$21.1 million). The other operating expenses slightly decreased from approximately HK\$11.3 million for the three months ended 31 March 2016 to approximately HK\$11.1 million for the three months ended 31 March 2017.

The Group's depreciation and amortization expenses increased by approximately 10.4% from approximately HK\$2.1 million for the three months ended 31 March 2016 to approximately HK\$2.4 million for the three months ended 31 March 2017 which was mainly attributable to the increase of addition of fixed assets after the relocation of the main office of the Group. The Group recorded similar finance costs for the three months ended 31 March 2017 amounted to approximately HK\$0.1 million as compared to that of the corresponding period in 2016 (2016: approximately HK\$0.1 million).



The unaudited profit attributable to owners of the Company decreased by approximately 39.8% from approximately HK\$1.2 million for the three months ended 31 March 2016 to approximately HK\$0.7 million for the three months ended 31 March 2017. Apart from the set off effect of the investment of the new securities business, the decrease of our financial performance was also due to the increase of depreciation and amortization expenses and income tax expenses in the period.

PROSPECTS

The more and more stringent credit control policies and data privacy regulations imposed on loan financing business continue to present challenge to the Group's telemarketing services. The increasing difficulties have resulted in lowering the productivity and margin of the service. But on the other hand, the aforesaid challenge has created more opportunities for our staff insourcing service, and the management of the Group anticipates to experience stronger demand of staff insourcing service in the coming period.

The Group continues to make progress on the advancement of our propriety contact centre system to cloud platform through the Software as a Service (SaaS) model. The development of the enhanced platform is expected to increase the competitiveness of our contact centre system solution as well as expand the target market segment to bring in additional income stream for the Group in the long run.

Other than the core business of contact centre service, the Group has started to engage in the new financial business following the opening of the securities trading centre in January 2017. Hong Kong financial market continues to enjoy the strong capital inflows from China. The management of the Group anticipates that the active capital market and positive investment atmosphere would prevail in the future. Despite the overall financial performance may be affected by the investment in our new security business in the short term, the Group remains conservatively optimistic regarding maximizing potential in the capital market and driving long-term solid growth in the securities business.

LIQUIDITY

The Group adheres to a prudent financial management policy and has a healthy financial position. During the three months under review, the Group financed our operations with internally generated cash flows and banking facilities. As at 31 March 2017, the Group had cash and bank balances and pledged bank deposits of approximately HK\$37.0 million (2016: approximately HK\$28.8 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 three months ended 31 March 2017 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 meeting held during the period under review due to another important engagement in the relevant time.

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 three months period ended 31 March 2017.

SHARE OPTION SCHEME

During the three months ended 31 March 2017, 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 three months period ended 31 March 2017 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 (Holdings) 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.

As disclosed before, the members of the Risk Management and Internal Control Committee (“RMICC”) and the Board considered that 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.

The RMICC and the management of the Group will continue to 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 31 March 2017, so far as the Directors are aware of, none of the Directors or the substantial/controllering 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 three months ended 31 March 2017.



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 31 March 2017, 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 31 March 2017
Mr. Tang Shing Bor	Interest in a controlled corporation	Corporate interest	210,000,000 (Note)	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 31 March 2017, 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 31 March 2017, 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 31 March 2017
Million Top Enterprises Limited (<i>Note</i>)	Beneficial owner	21,000,000	75%

Note:

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

Save as disclosed above, as at 31 March 2017, 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 Audit Committee has reviewed the unaudited interim results of the Group for the three months ended 31 March 2017 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 three months ended 31 March 2017.

By order of the Board

ETS Group Limited

Tang Yiu Sing

Executive Director and Chief Executive Officer

Hong Kong, 11 May 2017

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, Mr. Cheung Kong Ting and Mr. Wong Kam Tai.

This report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the Company's website at www.etsgroup.com.hk.