ETS GROUP LIMITED

易通訊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8031

Interim Report

2014

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 six months ended 30 June 2014 was approximately HK$89,118,000, representing an increase of approximately 15% as compared with the total revenue of approximately HK$77,232,000 for the corresponding period in 2013.

Profit attributable to owners of the Company for the six months ended 30 June 2014 was approximately HK$9,942,000, representing an increase of approximately 1% as compared with the profit attributable to owners of the Company of approximately HK$9,820,000 for the corresponding period in 2013.

Earnings per share for the six months ended 30 June 2014 was approximately HK3.6 cents (six months ended 30 June 2013: HK3.5 cents).

The Board resolved to declare the payment of an interim dividend of HK0.7 cents per share for the six months ended 30 June 2014 (six months ended 30 June 2013: HK0.9 cents).

UNAUDITED INTERIM 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 six months ended 30 June 2014 together with the comparative figures for the corresponding period ended 30 June 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the three months and six months ended 30 June 2014

		Three months ended 30 June		Six months ended 30 June	
	Notes	**2014 HK$'000 (unaudited)**	2013 HK$'000 (unaudited)	**2014 HK$'000 (unaudited)**	2013 HK$'000 (unaudited)
Revenue	3	**47,388**	37,224	**89,118**	77,232
Other income		**228**	107	**404**	191
Other gains/(losses) – net		**194**	46	**(364)**	87
Employee benefits expenses	4	**(24,895)**	(19,327)	**(49,659)**	(46,044)
Depreciation and amortization		**(2,043)**	(1,892)	**(4,144)**	(3,754)
Other operating expenses		**(12,550)**	(7,640)	**(22,850)**	(15,408)
Operating profit		**8,322**	8,518	**12,505**	12,304
Finance costs		**(131)**	(153)	**(295)**	(318)
Share of loss from an associate		**–**	–	**–**	(3)
Profit before tax	5	**8,191**	8,365	**12,210**	11,983
Income tax expense	6	**(1,380)**	(1,607)	**(2,268)**	(2,163)
Profit for the period		**6,811**	6,758	**9,942**	9,820
Total comprehensive income for the period		**6,811**	6,758	**9,942**	9,820
Profit attributable to owners of the Company		**6,811**	6,758	**9,942**	9,820
Total comprehensive income attributable to owners of the Company		**6,811**	6,758	**9,942**	9,820
Earnings per share attributable to owners of the Company – Basic and diluted (HK cents)	8	**2.4**	2.4	**3.6**	3.5

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

As at 30 June 2014

	Notes	As at 30 June 2014 HK$'000 (unaudited)	As at 31 December 2013 HK$'000 (audited)
Non-current assets			
Property, plant and equipment		**12,997**	10,473
Intangible assets		**20,738**	20,817
Investment in an associate		**–**	–
Deferred income tax assets		**788**	788
		34,523	32,078
Current assets			
Trade and other receivables	9	**49,772**	46,408
Financial assets designated as at fair value through profit or loss		**8,206**	4,802
Amount due from an associate		**2,194**	1,121
Amounts due from related companies		**5,182**	3,882
Pledged bank deposits		**4,773**	4,768
Cash and bank balances	10	**29,651**	34,539
		99,778	95,520
Current liabilities			
Trade and other payables	11	**18,754**	19,061
Borrowings		**8,427**	7,060
Amounts due to related companies		**98**	353
Current income tax liabilities		**2,600**	2,345
		29,879	28,819
Net current assets		**69,899**	66,701
Total assets less current liabilities		**104,422**	98,779

	Notes	As at 30 June 2014 HK$'000 (unaudited)	As at 31 December 2013 HK$'000 (audited)
Non-current liabilities			
Deferred income tax liabilities		**2,141**	2,165
Net assets		**102,281**	96,614
Equity attributable to the owners of the Company			
Share capital	12	**2,800**	2,800
Share premium		**25,238**	25,238
Reserves		**74,243**	68,576
Total equity		**102,281**	96,614

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2014

	Attributable to owners of the Company					
	Share capital	**Share premium**	**Merger reserve**	**Translation**	**Retained profits**	**Total equity**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2013 (audited)	2,800	25,238	25,624	–	22,830	76,492
Total other comprehensive income for the period	–	–	–	–	–	–
Profit for the period	–	–	–	–	9,820	9,820
Total comprehensive income for the period	–	–	–	–	9,820	9,820
Interim dividend paid	–	–	–	–	(3,080)	(3,080)
Balance at 30 June 2013 (unaudited)	2,800	25,238	25,624	–	29,570	83,232
Balance at 1 January 2014 (audited)	**2,800**	**25,238**	**25,624**	**48**	**42,904**	**96,614**
Other comprehensive income for the period						
Currency translation differences	**–**	**–**	**–**	**(75)**	**–**	**(75)**
Profit for the period	**–**	**–**	**–**	**–**	**9,942**	**9,942**
Total comprehensive income for the period	**–**	**–**	**–**	**(75)**	**9,942**	**9,867**
Interim Dividend Paid	**–**	**–**	**–**	**–**	**(4,200)**	**(4,200)**
Balance at 30 June 2014 (unaudited)	**2,800**	**25,238**	**25,624**	**(27)**	**48,646**	**102,281**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 **HK$'000** **(unaudited)**	2013 HK$'000 (unaudited)
Net cash generated from operating activities	**8,030**	5,942
Net cash (used in) investing activities	**(9,790)**	(7,974)
Net cash (used in) financing activities	**(4,050)**	(7,221)
Net (decrease) in cash, cash equivalents and bank overdrafts	**(5,810)**	(9,253)
Cash, cash equivalents and bank overdrafts at beginning of the period	**34,539**	40,403
Cash, cash equivalents and bank overdrafts at end of the period	**28,729**	31,150

NOTES TO THE FINANCIAL INFORMATION

For the six months ended 30 June 2014

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 interim financial information has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" 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 interim financial information were consistent with those applied for the consolidated financial statements of the Group for the year ended 31 December 2013.

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 2014, 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. SEGMENT INFORMATION AND REVENUE

The Directors review the Group's internal financial reporting and other information and also obtain other relevant external information in order to assess performance and allocate resources, and operating segment is identified with reference to these.

The reportable operating segments derive their revenue primarily from the following business units in Hong Kong and the People's Republic of China (the "PRC"):

(a) Outsourcing inbound contact service;

(b) Outsourcing outbound contact service;

(c) Staff insourcing service;

(d) Contact service centre facilities management service; and

(e) The "Others" segment which principally comprises licencing and system maintenance, sales of system and software.

For the six months ended 30 June 2014

	Outsourcing inbound contact service HK$'000 (unaudited)	Outsourcing outbound contact service HK$'000 (unaudited)	Staff insourcing service HK$'000 (unaudited)	Contact service centre facilities management service HK$'000 (unaudited)	Others HK$'000 (unaudited)	Total HK$'000 (unaudited)
Segment revenue						
Hong Kong	6,003	29,649	15,898	14,604	3,247	69,401
PRC	7,676	8,608	3,198	60	175	19,717
	13,679	38,257	19,096	14,664	3,422	89,118
Segment results						
Hong Kong	703	5,117	4,189	3,415	2,433	15,857
PRC	1,023	1,515	882	17	75	3,512
	1,726	6,632	5,071	3,432	2,508	19,369
Depreciation and amortization	648	994	–	1,671	443	3,756
Total segment assets						
Hong Kong	4,455	20,383	6,971	14,704	15,608	62,121
PRC	3,807	4,154	515	31	–	8,507
	8,262	24,537	7,486	14,735	15,608	70,628
Total segment assets includes:						
Additions to non-current assets (other than financial instruments)	1,907	2,275	–	1,336	7	5,525
Total segment liabilities						
Hong Kong	141	2,697	1,676	287	–	4,801
PRC	692	371	177	–	–	1,240
	833	3,068	1,853	287	–	6,041

For the six months ended 30 June 2013

	Outsourcing inbound contact service HK$'000 (unaudited)	Outsourcing outbound contact service HK$'000 (unaudited)	Staff insourcing service HK$'000 (unaudited)	Contact service centre facilities management service HK$'000 (unaudited)	Others HK$'000 (unaudited)	Total HK$'000 (unaudited)
Segment revenue						
Hong Kong	4,350	32,617	21,438	14,587	4,240	77,232
Segment results						
Hong Kong	505	5,798	1,870	3,691	3,437	15,301
Depreciation and amortization	149	1,458	–	1,695	337	3,639
Total segment assets						
Hong Kong	1,799	22,409	6,145	15,811	7,668	53,832
Total segment assets includes:						
Additions to non-current assets (other than financial instruments)	356	3,485	–	4,300	23	8,164
Total segment liabilities						
Hong Kong	809	5,464	3,060	1,428	–	10,761

A reconciliation of segment result to profit before tax is as follows:

	Six months ended 30 June	
	2014 **HK$'000** **(unaudited)**	2013 HK$'000 (unaudited)
Segment results for reportable segments	**16,861**	11,864
Other segments results	**2,508**	3,437
Total segments results	**19,369**	15,301
Unallocated:		
Other income	**404**	191
Other (losses)/gains – net	**(364)**	87
Depreciation and amortization	**(388)**	(115)
Finance costs	**(295)**	(318)
Corporate and other unallocated expenses	**(6,516)**	(3,160)
Share of loss from an associate	**–**	(3)
Profit before tax	**12,210**	11,983

4. EMPLOYEE BENEFITS EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2014 **HK$'000** **(unaudited)**	2013 HK$'000 (unaudited)	**2014** **HK$'000** **(unaudited)**	2013 HK$'000 (unaudited)
Salaries and allowances	**24,248**	20,381	**48,438**	48,444
Pension costs-defined contribution plans	**1,549**	1,025	**3,048**	2,065
Total employee benefits expenses, including Directors' remuneration	**25,797**	21,406	**51,486**	50,509
Less: Amounts capitalized in deferred development costs	**(902)**	(2,079)	**(1,827)**	(4,465)
	24,895	19,327	**49,659**	46,044

5. PROFIT BEFORE INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)	**2014 HK$'000 (unaudited)**	2013 HK$'000 (unaudited)
Profit before tax is stated after charging:				
Depreciation of owned property, plant and equipment	**1,113**	861	**2,238**	1,678
Depreciation of leased property, plant and equipment	**–**	–	**–**	–
Amortization of intangible assets	**930**	1,031	**1,906**	2,076
Total depreciation and amortization	**2,043**	1,892	**4,144**	3,754
Operating lease payments in respect of rented premises	**3,158**	2,542	**6,296**	5,083
Research and development costs	**930**	1,031	**1,906**	2,076

6. **INCOME TAX EXPENSE**

Hong Kong profits tax has been provided at a rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong for the six months period ended 30 June 2014. Taxation on overseas profits has been calculated on the estimated assessable profit for the six months period ended 30 June 2014 at the rates of taxation prevailing in the countries in which the Group operates.

	Three months ended 30 June		**Six months ended 30 June**	
	2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)	**2014 HK$'000 (unaudited)**	2013 HK$'000 (unaudited)
Current income tax	**1,380**	1,607	**2,268**	2,163
Deferred income tax	**–**	–	**–**	–
	1,380	1,607	**2,268**	2,163

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

7. **INTERIM DIVIDENDS**

The Board resolved to declare the payment of an interim dividend of HK0.7 cents per share for the six months ended 30 June 2014 (2013: HK0.9 cents). The interim dividend will be payable on 29 August 2014 (Friday) to shareholders on the register of members of the Company on 21 August 2014 (Thursday).

8. **EARNINGS PER SHARE**

The calculation of basic earnings per share for the six months ended 30 June 2014 is based on (i) the unaudited consolidated profit attributable to the owners of the Company of approximately HK$9,942,000 (six months ended 30 June 2013: approximately HK$9,820,000) and (ii) the weighted average number of 280,000,000 ordinary shares issued during the six months ended 30 June 2014 (during the six months ended 30 June 2013: 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 six months ended 30 June 2014 and 2013.

9. TRADE AND OTHER RECEIVABLES

	As at 30 June 2014 HK$'000 (unaudited)	As at 31 December 2013 HK$'000 (audited)
Trade receivables	**38,970**	36,160
Other receivables, deposits and prepayments	**10,802**	10,248
	49,772	46,408

The average credit period on the Group's sales is 30 days. The aging analysis of the trade receivables based on invoice date is as follows:

	As at 30 June 2014 HK$'000 (unaudited)	As at 31 December 2013 HK$'000 (audited)
0-30 days	**30,257**	30,326
31-60 days	**3,188**	5,257
61-90 days	**2,743**	345
Over 90 days	**2,782**	232
	38,970	36,160

10. CASH AND BANK BALANCES

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

Cash, cash equivalents and bank overdrafts include the following for the purposes of the statement of cash flows:

	As at 30 June 2014 HK$'000 (unaudited)	As at 31 December 2013 HK$'000 (audited)
Cash at bank and on hand	**16,572**	21,322
Short-term bank deposits	**13,079**	13,217
Bank overdrafts	**(922)**	–
Cash and cash equivalents	**28,729**	34,539

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$5,914,000 (2013: HK$4,915,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

11. TRADE AND OTHER PAYABLES

	As at 30 June 2014 HK$'000 (unaudited)	As at 31 December 2013 HK$'000 (audited)
Trade payables	**1,725**	840
Other payables and accruals	**17,029**	18,221
	18,754	19,061

As at 30 June 2014, the aging analysis of the trade payables based on invoice date is as follows:

	As at 30 June 2014 HK$'000 (unaudited)	As at 31 December 2013 HK$'000 (audited)
0-30 days	**1,271**	458
31-60 days	**66**	230
61-90 days	**313**	26
Over 90 days	**75**	126
	1,725	840

12. SHARE CAPITAL

	Number of ordinary shares	**Ordinary shares at HK$0.01 each** HK$'000
Authorized share capital	5,000,000,000	50,000
As at 31 December 2013 and 30 June 2014	**5,000,000,000**	**50,000**
Issued and fully paid up share capital	280,000,000	2,800
As at 31 December 2013 and 30 June 2014	**280,000,000**	**2,800**

13. OPERATING LEASE COMMITMENTS

The Group had commitments for future aggregate minimum lease payments under non-cancellable operating leases in respect of rented office premises as follows:

	As at 30 June 2014 HK$'000 (unaudited)	As at 31 December 2013 HK$'000 (audited)
No later than 1 year	**10,510**	9,618
Later than 1 year and no later than 5 years	**4,810**	5,758
	15,320	15,376

The Group leases office premises are under operating lease agreements. Lease for properties are for terms ranging from 1 month to 3 years.

14. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group entered into the following significant related party transactions during the period:

		Three months ended 30 June		**Six months ended 30 June**	
Name of related parties	**Nature of transactions**	**2014 HK$'000 (unaudited)**	2013 HK$'000 (unaudited)	**2014 HK$'000 (unaudited)**	2013 HK$'000 (unaudited)
Epro Techsoft Limited	Licence fee income	**–**	–	**–**	(40)
	System maintenance income	**(484)**	(343)	**(837)**	(640)
Epro Career Limited	Insourcing fee	**3,005**	1,674	**5,990**	3,222
Guangzhou Epro Information Technology Company Limited	Subcontracting fee for software technical research and development services	**1,016**	–	**2,546**	–

Key management personnel compensation

	Three months ended 30 June		Six months ended 30 June	
	2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)	**2014 HK$'000 (unaudited)**	2013 HK$'000 (unaudited)
Salaries and short-term employee benefits	**1,772**	1,772	**3,543**	3,482
Post employment benefits	**35**	34	**69**	68
	1,807	1,806	**3,612**	3,550

15. CONTINGENT LIABILITIES

The Group did not have any contingent liabilities as at 30 June 2014.

16. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The unaudited condensed consolidated interim financial information was approved by the Board on 4 August 2014.

INTERIM DIVIDEND

The Board resolved to declare the payment of an interim dividend of HK0.7 cents per share for the six months ended 30 June 2014 (2013: HK0.9 cents). The interim dividend will be payable on 29 August 2014 (Friday) to shareholders on the register of members of the Company on 21 August 2014 (Thursday).

CLOSURE OF THE REGISTER OF MEMBERS

The register of members will be closed from 19 August 2014 (Tuesday) to 21 August 2014 (Thursday), both days inclusive, during which period no transfers of shares will be registered. In order to ascertain entitlements to the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 pm on 18 August 2014 (Monday).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is continuously engaged in the business of providing comprehensive multimedia 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 in both Hong Kong and the PRC.

The Group has submitted a formal application to the Stock Exchange on 30 May 2014 for the transfer of listing (the "Transfer of Listing") of the shares of the Company pursuant to the procedure under Chapter 9A of the Rules Governing the Listing of Securities on the Stock Exchange. The Board considers that the Transfer of Listing will be beneficial to the future growth and business development of the Company, which in turn will help to enhance the profile of the Group and increase the trading liquidity of the shares of the Company and recognitions by attracting larger potential institutional investors.

The Group has become more competitive in the outsourcing contact service market owing to the ability to provide services in different geographic locations according to service characteristics as well as pricing budget of the customers. Sharing best practices acquired from serving international corporate clients in both territories has also helped to elevate service quality and operating efficiency mutually, and in turn attracts more business enquiries and opportunities to the Group.

At the beginning of 2014, the Group has relocated one of its two PRC contact centres from Guangzhou Tian He Software Park to Nansha District under the consideration of a lower rental rate and manpower cost on ongoing basis, which is expected to further improve the profit margin of its contact service business in the PRC. Also at the beginning of 2014, the Group has expanded the capacity of the other PRC contact centre located at Liwan District, and the total number of workstations in the PRC as at 30 June 2014 is approximately 350 workstations.

The Group's business centre located at Kwun Tong has reached an occupancy of approximately 80%, and the Group is currently looking for suitable location for setting up the second business centre for further expansion.

The expanded business coverage and listed status of the Group has continued to attract potential partnership, business merger and/or acquisition opportunities from the Asia Pacific Region, and the Group will strive to identity and consider any possible business deals for the maximum benefits of the Group.

CONTRACTUAL ARRANGEMENTS

Introduction

The Group is principally engaged in the businesses of outsourcing inbound contact service, outsourcing outbound contact service, staff insourcing service and contact service centre facilities management service and other services such as licencing and sale of systems and software. Following the completion of the acquisition (the "Acquisition") by Elite Depot Holdings Limited ("Elite Depot"), a wholly-owned subsidiary of the Company, of the entire equity interests in Epro BPO Services Limited ("Epro BPO") from Epro Group International Limited, in July 2013, the Group has expanded its contact service business in the PRC through its PRC operating entity, 廣州浚峰網絡技術有限公司 (Guangzhou Junfeng Network Technology Limited#) ("Guangzhou Junfeng").

Pursuant to the applicable PRC laws and regulations, foreign investors are only allowed to acquire up to 50% equity interests in the value-added telecommunication enterprise in the PRC in accordance with the provisions of《外商投資產業指導目錄》(2011修訂) (Catalogue of Industries for Guiding Foreign Investment (2011 Revision)#) and《外商投資電信企業管理規定》(Provisions on the Administration of Foreign-funded Telecommunications Enterprises#). Furthermore, for the establishment of a foreign-funded value-added telecommunication enterprise, the following conditions (collectively, the "Qualification Requirements") have to be met:

(i) the major foreign investor should be an enterprise that has good business performances and operation experiences in managing the value-added telecom businesses; and

(ii) the foreign-funded telecommunications enterprises shall have a registered capital of not less than RMB10 million for engaging in the value-added telecom businesses nationwide or beyond a single province, autonomous region or municipality directly under the central government, and not less than RMB1 million for engaging in the value-added telecom businesses within a province, autonomous region or municipality directly under the central government.

As a result of the foreign investment restriction, on 5 July 2013, the Group entered into a series of contractual arrangements (the "Contractual Arrangements") with Guangzhou Junfeng, Mr. Xu Jie# (許杰) ("Mr. Xu") and/or Mr. Yuan Linxian# (原林祥) ("Mr. Yuan") (being the registered shareholders of Guangzhou Junfeng who respectively own 82% and 18% equity interests in Guangzhou Junfeng as at the date of this report) through the 廣州普廣科技有限公司 (the "WFOE"), a wholly foreign-owned enterprise established in the PRC, to conduct its contact service business in the PRC in order to comply with the applicable PRC laws and regulations and to assert management control over the operations of, and enjoy all economic benefits of, Guangzhou Junfeng. The agreements underlying the Contractual Arrangements with Guangzhou Junfeng include: (i) the Loan Agreement (as defined below), (ii) the Management Agreement (as defined below), (iii) the Equity Charge (as defined below), (iv) the Irrevocable Equity Transfer Agreement (as defined below), (v) the Director Undertaking (as defined below), (vi) the Shareholders Undertaking (as defined below), and (vii) the Legal Representative Undertaking (as defined below).

Pursuant to the Contractual Arrangements, all substantial and material business decisions of Guangzhou Junfeng will be instructed and supervised by the Group, through the WFOE, and all risks arising from the business of Guangzhou Junfeng are also effectively borne by the Group as a result of Guangzhou Junfeng being treated as a wholly-owned subsidiary of the Group. Accordingly, our Directors consider that it is fair and reasonable for the WFOE to be entitled to all economic benefits generated by the business operated by Guangzhou Junfeng through the Contractual Arrangements as a whole.

With a well established contact centre business in Hong Kong, the Group strives to develop comprehensive contact centre business in the PRC. Through the Contractual Arrangements with the Guangzhou Junfeng, the Group is able to flexibly allocate contact centre services to different geographic locations, namely Hong Kong and Guangzhou, based on the needs of the clients in a most efficient and effective manner, and thus has become more competitive in the market.

Guangzhou Junfeng has solid experience in contact centre operation management, and is engaged in business models very much similar to that of the Group namely, outsourcing inbound contact centre service, outsourcing outbound contact centre service, contact centre staff insourcing service and contact centre facilities management service. The Group believes that by combining the strength of the contact centres at both territories, the Group's well established reputation and listed status together with the local PRC operation establishment, the Group is at a very competitive position to attract both local as well as overseas corporations in the outsourcing contact centre service market, and the Group can eventually benefit from the opportunities arising from the growth in the PRC market and domestic demands.

With the current capacity of approximately 350 workstations in the two contact centres in Guangzhou, the Group will review the need of further expanding the capacity either at the current premises or another location within Guangdong province before the end of 2014.

The Group recognizes the vital need to keep abreast with the latest technological development in communications, and to maintain the competitiveness of the WISE-xb System as well as the Group's contact services which ride on the WISE-xb System platform.

With the WISE-xb System supporting all the contact centre services of the Group as well as serving as a revenue stream through licensing and sales of system and software, the Group will continue to invest in the research and development of the WISE-xb System. At the same time, with the addition of the WFOE development team, the Group has greatly strengthened its development capability in terms of scale and expertise. The Group plans to further explore other IT development outsourcing business opportunities in Hong Kong, the PRC and other Asia Region.

The Board is of the view that the Group's expansion plans are reasonable and appropriate to comply with the Qualification Requirements. The Group will maintain close contact with the relevant PRC regulatory authorities and seek specific guidance as to the Qualification Requirements.

History and background of Guangzhou Junfeng

Guangzhou Junfeng was established in 2000 and obtained its Telecom Value Added Service Operating License in 2003. Its principal scope of business includes computing technology development, wholesale trading, call centre business and information service business covering the region of Guangdong Province, the PRC.

In 2005, Mr. Xu acquired 70% of the shares of Guangzhou Junfeng, and Mr. Yuan acquired the remaining 30% in 2010. Guangzhou Junfeng had limited operation after inception. After the acquisition of Mr. Xu in 2005, the scale of call centre operation gradually expanded from approximately 30 staff in 2006 to approximately 450 workstations in July 2013. Starting from 2006, Guangzhou Junfeng operated the call centre at Tian He Software Park ("First Call Center"), and later in August 2008 expanded the second call centre at SME Innovation and Technology Park in Guangzhou Liwan District ("Second Call Centre"). In 2014, Guangzhou Junfeng moved the First Call Centre to Nansha District of Guangdong Province, the PRC with a capacity of approximately 150 workstations, and at the same time expanded the Second Call Centre to a capacity of approximately 200 workstations.

From 2006 to 14 May 2014, Guangzhou Junfeng's business address was located on the 8th Floor, East Tower, Jia Du Commercial Building, Tian He Software Park, 66 Jian Zhong Road, Guangzhou, China. From 14 May 2014, Guangzhou Junfeng's business address is located at Flat 2A & 3A, Block B, No. 1 Guangxing Hengjie Guangxing Road, Nansha District, Guangzhou, China.

Prior to the completion of the Acquisition in 2013, Guangzhou Junfeng used basic telephone system for its overall call centre operation, and used the WISE-xb Contact Centre System provided by the Group exclusively for those contact centre services subcontracted by the Group. After the completion of the Acquisition, the Group has deployed the WISE-xb Contact Centre System to Guangzhou Junfeng for operating all of its services.

Information of the registered shareholders of Guangzhou Junfeng

Mr. Xu

Mr. Xu owns 82% equity interests in Guangzhou Junfeng as at the date of this report. Mr. Xu is currently the chairman of the board of directors and the legal representative of Guangzhou Junfeng. Mr Xu is mainly responsible for the strategic planning, leading the management to ensure effective communication and relationship with the customers, maintaining regular dialogue with the shareholders and leading the management to achieve the business goals and results. Mr Xu is not a paid staff and does not receive any salary.

Mr. Yuan

Mr. Yuan owns 18% equity interests in Guangzhou Junfeng as at the date of this report. Mr Yuan is currently the chief software engineer and technical manager of Guangzhou Junfeng. Mr Yuan is mainly responsible for the system research and development, information technology management and operation of Guangzhou Junfeng's business in accordance with the business plans. Mr. Yuan has a salary of RMB18,200.00 per month.

Details of the Contractual Arrangements

(i) Loan Agreement

On 5 July 2013, a loan agreement (the "Loan Agreement") was entered into between Epro BPO, as the lender, and Mr. Xu and Mr. Yuan, as borrowers, pursuant to which the Epro BPO granted an interest free loan (the "Loan") of a principal amount of RMB7,000,000.00 to Mr. Xu and Mr. Yuan. The term of the Loan shall end on the date of the exercise of the exclusive right by the WFOE under the Irrevocable Equity Transfer Agreement to acquire the equity interest in Guangzhou Junfeng. The amount of the Loan shall be used to set off against the consideration under the Irrevocable Equity Transfer Agreement. Pursuant to the Loan Agreement, Epro BPO may at its sole discretion assign the rights and novate the obligations under the Loan Agreement to any company nominated by Epro BPO without the consent of Mr. Xu and Mr. Yuan.

(ii) Management Agreement

On 5 July 2013, the WFOE entered into a management agreement (the "Management Agreement") with Guangzhou Junfeng, Mr. Xu and Mr. Yuan, pursuant to which the WFOE shall provide to Guangzhou Junfeng management consultancy services, including (i) identifying suitable candidates and experts with experience and providing training to managers, head of departments, administrative staff, accounting staff and other staff of Guangzhou Junfeng; (ii) providing strategic advices on the agreements that are reasonably required or in the ordinary course of business of Guangzhou Junfeng; (iii) formulating and assisting in the implementation of rules and internal control policy, standard administrative, accounting, planning, marketing, human resources and operation strategies; (iv) assisting Guangzhou Junfeng to plan and organize public relations and marketing activities; (v) assisting Guangzhou Junfeng to review its operations; (vi) assisting Guangzhou Junfeng in business operations; (vii) providing market information on computer network technology and internet information services and mobile internet information market research information and analysis; and (viii) providing business advices on the operation and investment project, and assisting and participating in management operations.

In addition, pursuant to the Management Agreement, without the prior written approval from the WFOE, Guangzhou Junfeng shall not enter into any transactions (save as those transactions entered into in the ordinary course of business) that may affect its assets, obligations, rights or operation, including but not limited to (i) the disposal, transfer or acquisition of any assets, (ii) the provision of any guarantee or create any encumbrances relating to its assets, (iii) the entering into of any material contracts and (iv) any merger, acquisition or restructuring of Guangzhou Junfeng.

The initial term of the Management Agreement is of a fixed term of ten years from the date of the execution of the Management Agreement. The WFOE has the sole discretion to renew the Management Agreement for a further term of ten years.

The WFOE shall charge Guangzhou Junfeng a service fee of 10% of the actual net profit of Guangzhou Junfeng. In the event that Guangzhou Junfeng has incurred a loss, the WFOE shall charge Guangzhou Junfeng a service fee of RMB100,000.00 per year. Pursuant to the terms of the Management Agreement, the WFOE may at any time at its sole discretion or facing an increase in the cost of providing the management service, charge Guangzhou Junfeng a service fee of up to 100% of the actual net profit of Guangzhou Junfeng.

Pursuant to the terms of the Management Agreement, the WFOE may at its sole discretion assign the rights and novate the obligations under the Management Agreement to any company nominated by the WFOE without the consent of Guangzhou Junfeng, Mr. Xu and Mr. Yuan.

(iii) Equity Charge

On 5 July 2013, the WFOE, as chargee, entered into an equity charge (the "Equity Charge") with Mr. Xu and Mr. Yuan, as chargor, and Guangzhou Junfeng, as confirmor, pursuant to which Mr. Xu and Mr. Yuan create the Equity Charge in favour of the WFOE over their respective equity interests in Guangzhou Junfeng to secure and guarantee the obligations of Guangzhou Junfeng under the Management Agreement until the fulfillment of all the obligations of Guangzhou Junfeng under the Management Agreement.

The Equity Charge has been registered with the relevant industry and commerce registration authority in the PRC since 3 August 2013. The charging period of the Equity Charge shall commence from the date of registration of the Equity Charge with the relevant industry and commerce registration authority until fulfillment of all the obligations of Mr. Xu, Mr. Yuan and Guangzhou Junfeng under the Management Agreement.

Pursuant to the terms of the Equity Charge, the WFOE may at its sole discretion assign the rights and novate the obligations under the Equity Charge to any company nominated by the WFOE without the consent of Mr. Xu and Mr. Yuan.

(iv) *Irrevocable Equity Transfer Agreement*

On 5 July 2013, the WFOE, Mr. Xu, Mr. Yuan and Guangzhou Junfeng entered into an irrevocable equity transfer agreement (the "Irrevocable Equity Transfer Agreement"), pursuant to which Mr. Xu and Mr. Yuan shall grant an irrevocable and exclusive right to the WFOE to acquire, to the extent permitted by the relevant PRC laws and regulations, the entire equity interests in Guangzhou Junfeng at a consideration of not exceeding RMB7,000,000.00.

Subject to the full compliance with the relevant PRC laws and regulations and the consent of the Epro BPO, the parties agree that the amount of the Loan shall be used to set off against the consideration under the Irrevocable Equity Transfer Agreement.

There is no fixed term to the exercise of rights by the WFOE to acquire entire equity interests in Guangzhou Junfeng. Such rights shall remain valid until (i) it is permitted under the relevant laws and regulations in the PRC; and (ii) the WFOE exercises the right to acquire the entire equity interests in Guangzhou Junfeng.

Pursuant to the sole discretion of the WFOE, the WFOE can assign the rights under the Irrevocable Equity Transfer Agreement to any third party nominated by the WFOE without the consent of Mr. Xu, Mr. Yuan and Guangzhou Junfeng.

Subject to the full compliance of the relevant PRC laws and regulations, in the event that the restrictions, including but not limited to the foreign ownership restriction, that led to the adoption of the Contractual Arrangements are removed, the WFOE shall have the full discretion to exercise its right under the Irrevocable Equity Transfer Agreement.

(v) *Director Undertaking*

On 5 July 2013, Mr. Xu, as covenantor, and Guangzhou Junfeng and Mr. Yuan, as confirmor, executed a director undertaking (the "Director Undertaking") in favour of the WFOE, pursuant to which, Mr. Xu undertakes that (i) he will act according to the instructions of the WFOE upon the exercise of the powers of the directors of Guangzhou Junfeng, including but not limited to, the convening of shareholders' meeting, performance of shareholders' resolutions, approving of business plans and investment plans, formulating of annual budget, distribution of profits and making up of losses; and (ii) to guarantee that upon the change of director(s) of Guangzhou Junfeng, he will procure the replacement director(s) to give a similar undertaking as aforesaid.

(vi) Shareholders Undertakings

On 5 July 2013, each of Mr. Xu and Mr. Yuan, as covenantor and Guangzhou Junfeng, as confirmor, together executed a shareholders undertaking (the "Shareholders Undertaking") in favour of the WFOE, pursuant to which Mr. Xu and Mr. Yuan undertake that they will act in accordance with the instructions of the WFOE upon the exercise of the powers of the shareholders of Guangzhou Junfeng including but not limited to the right to vote on any resolutions proposed at the shareholders' meetings of Guangzhou Junfeng until the transfer of the entire equity interests in Guangzhou Junfeng to the WFOE and the fulfillment of all obligations under the Loan Agreement, the Management Agreement, the Equity Charge and the Irrevocable Equity Transfer Agreement.

(vii) Legal Representative Undertaking

On 5 July 2013, Mr. Xu, as covenantor, and Guangzhou Junfeng and Mr. Yuan, as confirmors, executed a legal representative undertaking (the "Legal Representative Undertaking") in favour of the WFOE, pursuant to which Mr. Xu, the legal representative of Guangzhou Junfeng, undertakes that (i) he will act according to the instructions of the WFOE upon the exercise of the power of the legal representative of Guangzhou Junfeng, including but not limited to, signing the documents that as a legal representative needs to sign; and (ii) upon the change of legal representative of Guangzhou Junfeng, he will procure the replacement legal representative to give a similar undertaking as aforesaid.

Dispute resolution under the Contractual Arrangements

The Contractual Arrangements (except the Loan Agreement) is governed by the PRC laws and provides that any dispute arising from the Contractual Arrangements (except the Loan Agreement) shall be resolved through arbitration at Shenzhen in accordance with the arbitration rules of South China International Economic and Trade Arbitration Commission (華南國際經濟貿易仲裁委員會). The decision of the arbitration is final and enforceable against the parties thereto.

The parties agree that in appropriate circumstances, the parties or the South China International Economic and Trade Arbitration Commission can apply to the courts of competent jurisdiction to award remedies in rem over the shares or assets of Guangzhou Junfeng, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Guangzhou Junfeng in support of the arbitration pending formation of the arbitral tribunal generally.

Succession

As advised by the PRC legal adviser of the Company, while the agreements underlying the Contractual Arrangements provide that such agreements are also binding on the successors of the relevant parties thereto, in the case where there is a successor involved, the successor should sign the relevant agreements to become a legal party to the agreements underlying the Contractual Arrangements. Based on the successors' signing of the agreements underlying the Contractual Arrangements, any breach by the successors thereof would be deemed to be a breach of the relevant agreements. In particular, in the event of the bankruptcy or divorce of Mr. Xu and Mr. Yuan, the agreements underlying the Contractual Arrangements are binding on the assignees or successors of Mr. Xu and Mr. Yuan to which the rights and obligations thereunder are transferred or assigned by way of auctions, novation, restructuring, inheritance, assignment, transfer or other bankruptcy procceedings. Therefore, the PRC legal advisers of the Company is of the view that the WFOE can enforce its right under the agreements underlying the Contractual Arrangements against the relevant successors while successors have signed the relevant agreements to become legal parties to such agreements. In any event, subject to the full compliance of the relevant PRC laws and regulations, the WFOE can, at its sole discretion, exercise or assign to its nominee the right under the Irrevocable Equity Transfer Agreement to acquire the entire equity interest in Guangzhou Junfeng.

As at 30 June 2014, there was not any material change in the major terms of each of the agreements underlying the Contractual Arrangements.

Risks associated with the Contractual Arrangements

The PRC Government may determine that the Contractual Arrangements do not comply with applicable PRC laws and regulations

The Group's PRC legal adviser has advised that there is a possibility that the PRC government may have different opinions on the interpretation of the applicable PRC regulations and would not agree that the Contractual Arrangements comply with PRC licensing, registration or other legal or regulatory requirements, existing policies or requirements or policies that may be adopted in the future. PRC laws and regulations governing the validity of the Contractual Arrangements are uncertain and the relevant government authorities have broad discretion in interpreting these laws and regulations.

The Company cannot assure that the Contractual Arrangements will not be found to be in violation of any current or future PRC laws and regulations. If the Company is found to be in violation of any existing or future PRC laws or regulations, including the MOFCOM Security Review Rules and any future regulations regarding the use of the VIE structure promulgated by any PRC government authority, the relevant regulatory authorities would have broad discretion in dealing with such breach or violation. Such action could have a material adverse impact on the Group's business, financial condition and results of operations.

As at 30 June 2014, the Company has not encountered any interference or encumbrance from any governing bodies in operating its business through Guangzhou Junfeng under the Contractual Arrangements.

The Contractual Arrangements may not provide control as effective as direct ownership

Since the PRC governmental authorities currently do not as a matter of practice grant Telecom Value Added Service Operating License to foreign invested companies, the Group is conducting its contact services business in the PRC and generating revenues through the Contractual Arrangement. The Contractual Arrangement may not be as effective in providing the Company with control over Guangzhou Junfeng as direct ownership.

If the Company had a direct ownership of Guangzhou Junfeng, the Company would be able to exercise its rights as a shareholder to effect changes in the board of directors of Guangzhou Junfeng, which in turn could effect changes at the management level, subject to any applicable fiduciary obligations. However, under the Contractual Arrangements, the Company relies on Guangzhou Junfeng and its shareholders' performance of their contractual obligations to exercise effective control. In addition, the Contractual Arrangements generally have a term of ten years which is subject to the WFOE's unilateral right of extension or termination. In general, neither Guangzhou Junfeng nor its shareholders may terminate the contracts prior to the expiration date. However, the registered shareholders of Guangzhou Junfeng may not act in the best interests of the Company or may not perform their obligations under the Contractual Arrangements, including the obligation to renew the Contractual Arrangements when their initial ten-year term expires. Such risks exist and the Company expects them to continue to exist throughout the period in which the Company intends to operate its business through the Contractual Arrangements. The Company may replace the shareholders of Guangzhou Junfeng pursuant to the Contractual Arrangements when the PRC laws and regulations permit such replacement. However, if any dispute relating to these agreements is unresolved, the Company will have to enforce its rights under the Contractual Arrangements through the operations of PRC law and through arbitration and therefore will be subject to uncertainties. Therefore, the Contractual Arrangements may not be as effective as direct ownership in providing the Company with control over Guangzhou Junfeng.

Any failure by Guangzhou Junfeng or its shareholders to perform their obligations under the Contractual Arrangements with them may have a material adverse effect on the Group's business

Guangzhou Junfeng and its shareholders may fail to take certain actions required for the Group's business or to follow the Group's instructions despite their contractual obligations to do so. If they fail to perform their obligations under their respective agreements with the Company, the Company may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, which may not be effective.

In the event that the Company is not able to exert control over Guangzhou Junfeng, for example, if the shareholders of Guangzhou Junfeng were to refuse to transfer their equity interests in Guangzhou Junfeng to the WFOE or its designee when the WFOE exercises its rights pursuant to the Contractual Arrangements, or if they were otherwise to act in bad faith toward the Group, then the Group may have to take legal actions to compel them to fulfil their contractual obligations.

All of the agreements that constitute the Contractual Arrangements (except the Loan Agreement) are governed by PRC laws and provide for the resolution of disputes through arbitration in accordance with the arbitration rules of South China International Economic and Trade Arbitration Commission (華南國際經濟貿易仲裁委員會) in the PRC. Accordingly, the agreements underlying the Contractual Arrangements will be interpreted in accordance with PRC law and any disputes will be resolved in accordance with the relevant arbitration rules. If Guangzhou Junfeng fails to perform its obligations under the Contractual Arrangements, the Company may have to rely on legal remedies under PRC law, including seeking specific performance or injunctive relief, and claiming damages which may not be effective. The legal environment in the PRC is not as developed as in certain other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could limit the Company's ability to enforce the Contractual Arrangements, which may make it difficult to exert effective control over the Contractual Arrangements, and the Company's ability to conduct its business may be adversely affected.

The Company may suffer losses as the primary beneficiary of Guangzhou Junfeng if the Company provides financial support to Guangzhou Junfeng, and the Company may lose the ability to use and enjoy assets held by Guangzhou Junfeng that are important to the operation of its business if Guangzhou Junfeng declares bankruptcy or becomes subject to a dissolution or liquidation proceeding

Under the Contractual Arrangements, as the primary beneficiary of Guangzhou Junfeng, under the applicable laws, the Company is not obligated to share the losses of Guangzhou Junfeng nor is the Company obligated to provide financial support to Guangzhou Junfeng under any circumstances. However, in the event that Guangzhou Junfeng operates at losses or otherwise, the Company may decide and resolve, at its sole and absolute discretion, to provide financial support to Guangzhou Junfeng in any manner permitted by relevant PRC laws to maintain its sound operations.

In addition, Guangzhou Junfeng holds certain assets that are important to the Group's business operations, such as the Telecom Value Added Service Operating License. Although relevant agreements under the Contractual Arrangements between the WFOE, Guangzhou Junfeng and the registered shareholders of Guangzhou Junfeng contain terms that specifically obligate the shareholders of Guangzhou Junfeng to ensure the valid existence of Guangzhou Junfeng and that Guangzhou Junfeng may not be voluntarily liquidated, in the event the shareholders breach this obligation and voluntarily liquidate Guangzhou Junfeng, or Guangzhou Junfeng declares bankruptcy, and all or part of its assets become subject to liens or rights of third-party creditors, the Company may be unable to continue some or all of our business operations, which could materially and adversely affect its business, financial condition and results of operations. Furthermore, if Guangzhou Junfeng undergoes a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors may claim rights to some or all of these assets, thereby hindering the Company's ability to operate its business, which could materially and adversely affect its business, results of operations and financial condition.

The shareholders of Guangzhou Junfeng may have potential conflicts of interest with the Company, which may materially and adversely affect the business of the Group

The Company provides no incentives to Mr. Xu and Mr. Yuan for the purpose of encouraging them to act in best interests of the Company in their capacity as the shareholders of Guangzhou Junfeng. The Company may replace any persons as the shareholders of Guangzhou Junfeng at any time pursuant to the Contractual Arrangements. Each of Mr. Xu and Mr. Yuan has executed a power of attorney to appoint the WFOE to vote on his behalf and exercise all voting rights as shareholder of Guangzhou Junfeng. However, the Company cannot assure that when conflicts arise, Mr. Xu and Mr. Yuan will act in the best interests of the Company or that conflicts will be resolved in the Company's favour. If the Company cannot resolve any conflicts of interest or disputes between the Company and any of registered shareholders of Guangzhou Junfeng, the Company would have to rely on legal proceedings, which may be expensive, time-consuming and disruptive to our operations. There is also substantial uncertainty as to the outcome of any such legal proceedings.

The Contractual Arrangements may be challenged by the PRC tax authorities

Under applicable PRC tax laws and regulations, arrangements and transactions among related parties may be subject to audit or scrutiny by the PRC tax authorities within ten years after the taxable year when the arrangements or transactions are conducted. The Company may face adverse tax consequences if the PRC tax authorities determine that the agreements underlying the Contractual Arrangements were not entered into based on arm's length negotiations and therefore constitute unfavourable transfer pricing arrangements. Unfavourable transfer pricing arrangements could, among other things, result in an upward adjustment of the amount of tax the Group is required to pay. In addition, the PRC tax authorities may impose interest on late payments on Guangzhou Junfeng or the WFOE for the adjusted but unpaid taxes. The agreements underlying the Contractual Arrangements were negotiated and executed based on an equal standing and reflect the true commercial intention of Guangzhou Junfeng, the WFOE and other relevant parties thereto. The Group's results of operations may be materially and adversely affected if Guangzhou Junfeng's or the WFOE's tax liabilities increase significantly or if they are required to pay interest on late payments.

Certain terms of the Contractual Arrangements may not be enforceable under the PRC laws

The Contractual Arrangements provide for dispute resolution by way of arbitration in accordance with arbitration rules of South China International Economic and Trade Arbitration Commission (華南國際經濟貿易仲裁委員會) in the PRC. The Contractual Arrangements contain provisions to the effect that the parties or the South China International Economic and Trade Arbitration Commission can apply to the courts of competent jurisdiction to award remedies in rem over the shares or assets of Guangzhou Junfeng, injunctive relief (e.g. for the conduct of business or to compel the transfer of assets) or order the winding up of Guangzhou Junfeng in support of the arbitration pending formation of the arbitral tribunal generally.

However, as advised by the PRC legal advisor of the Company, the abovementioned provisions contained in the Contractual Arrangements may not be enforceable. Under PRC laws, an arbitral body does not have the power to grant any injunctive relief or provisional or final liquidation order to preserve the assets of or any equity interest in Guangzhou Juunfeng in case of disputes. Therefore, such remedies may not be available to the Group, notwithstanding the relevant contractual provisions contained in the Contractual Arrangements. PRC laws allow an arbitral body to award the transfer of assets of or an equity interest in Guangzhou Junfeng in favour of an aggrieved party. In the event of non-compliance with such award, enforcement measures may be sought from the court. However, the court may or may not support the award of an arbitral body when deciding whether to take enforcement measures. Under PRC laws, courts of judicial authorities in the PRC generally would not grant injunctive relief or the winding-up order against Guangzhou Junfeng as interim remedies to preserve the assets or shares in favour of any aggrieved party. The PRC legal adviser of the Company is also of the view that, even though the Contractual Arrangements provide that courts in Hong Kong and the Cayman Islands may grant and/or enforce interim remedies or in support of arbitration, such interim remedies (even if so granted by courts in Hong Kong or the Cayman Islands in favour of an aggrieved party) may not be recognized or enforced by PRC courts. As a result, in the event that Guangzhou Junfeng or any of its shareholders breaches any of the Contractual Arrangements, we may not be able to obtain sufficient remedies in a timely manner, and our ability to exert effective control over Guangzhou Junfeng and conduct of the Group's business could be materially and adversely affected.

Measures to minimize the risk of non-compliance of the Contractual Arrangements

To minimize the risk of non-compliance of the Contractual Arrangements by Guangzhou Junfeng, Mr. Xu and Mr. Yuan, the Group has adopted the following measures:

(i) In terms of contractual measures, the Board considers the entering into of the Equity Charge and the registration with the relevant industry and commerce registration authority can effectively prevent Guangzhou Junfeng's shareholders from impeding the WFOE's control over Guangzhou Junfeng by transferring their equity interest in Guangzhou Junfeng to bona fide third parties without the WFOE's knowledge or approval. Thus, the Board is of the view that the registered Equity Charge are effective measures in mitigating the risks of non-performance of obligations by Guangzhou Junfeng, Mr. Xu and Mr. Yuan.

(ii) In terms of practical measures, Guangzhou Junfeng passed a board resolution on 29 April 2014 approving the appointment of three (3) new directors nominated by the Company to the board of directors of Guangzhou Junfeng, namely Mr. Eric Suen Fuk Hoi, the Financial Controller of the Group, Ms. Ting Yee Mei, the General Manager of Operation of the Group and Mr. Cheung Chi Tat, the Software Development Manager of the Group. Followed the passing of the above resolution, three out of four board seats of Guangzhou Junfeng are occupied by the Group (the remaining board seat was held by Mr. Xu), which enable the Group to assert ultimate control on Guangzhou Junfeng. With the three major areas, including finance, operation and technology, being overseen by the above three directors nominated by the Company, and the Group's solid management experience in outsourcing contact centre services, the Group is able to minimize the risks of non-performance of obligations by Guangzhou Junfeng and its registered shareholders.

Financial information of Guangzhou Junfeng

The unaudited revenue, profit/loss and net assets attributable to Guangzhou Junfeng for the six months ended 30 June 2014 are set out as follows:

	Six months ended 30 June 2014 HK$'000 (unaudited)
Revenue	19,543
Profit for the period	1,515
Net assets	6,344

FINANCIAL REVIEW

For the six months ended 30 June 2014, the Group's unaudited total revenue was approximately HK$89.1 million, representing an increase of approximately HK$11.9 million as compared with the total revenue of the corresponding period in 2013 (six months ended 30 June 2013: approximately HK$77.2 million). The revenue contribution from Hong Kong and the PRC is approximately 78% and 22% respectively for the period.

The gross profit of the Group increased from approximately 19.8% for the six months ended 30 June 2013 to approximately 21.7% for the six months ended 30 June 2014. Profit attributable to owners of the Company increased by approximately 1.2% from approximately HK$9.8 million for the six months ended 30 June 2013 to approximately HK$9.9 million for the six months ended 30 June 2014.

REVENUE AND SEGMENT RESULT

The outsourcing inbound contact service, outsourcing outbound contact service, staff insourcing service, contact service centre facilities management service and others accounted for approximately 15%, 43%, 21%, 17% and 4% of the Group's unaudited total revenue for the six months ended 30 June 2014 respectively.

Outsourcing Inbound Contact Service

For the six months ended 30 June 2014, the outsourcing inbound contact service recorded a revenue of approximately HK$13.7 million, representing an increase of approximately 214.5% as compared to that of the corresponding period in 2013. The segment results for the six months ended 30 June 2014 was approximately HK$1.7 million. The gross profit margin for outsourcing inbound contact service increased from approximately 11.6% for the six months ended 30 June 2013 to approximately 12.6% for the six months ended 30 June 2014.

The significant increase in revenue from the outsourcing inbound contact service was mainly attributed to the addition of outsourcing inbound contact service revenue from the PRC which amounted to approximately HK$7.7 million, as well as an overall increasing demand in inbound contact services outsourced from our clients during the period.

Outsourcing Outbound Contact Service

For the six months ended 30 June 2014, the outsourcing outbound contact service recorded an increase in revenue of approximately HK$5.6 million, representing an increase of approximately 17.3% as compared to that of the corresponding period in 2013. The segment results for the six months ended 30 June 2014 was approximately HK$6.6 million. The gross profit margin for outsourcing outbound contact service slightly decreased from approximately 17.8% for the six months ended 30 June 2013 to approximately 17.3% for the six months ended 30 June 2014.

The increase in revenue from the outsourcing outbound contact service was mainly due to the addition of outsourcing outbound contact service revenue from the PRC which amounted to approximately HK$8.6 million. The gross profit margin of outsourcing outbound contact service remained approximately the same during the period.

Staff Insourcing Service

For the six months ended 30 June 2014, the staff insourcing service segment recorded a revenue of approximately HK$19.1 million, representing a decrease of approximately 10.9% as compared to that of the corresponding period in 2013. The segment results of staff insourcing service for the six months ended 30 June 2014 was approximately HK$5.1 million. The gross profit margin for staff insourcing service increased from approximately 8.7% for the six months ended 30 June 2013 to approximately 26.6% for the six months ended 30 June 2014.

The decrease in revenue from the staff insourcing service was due to a net decrease in the number of insourced staff resulted from the conversion arrangement of insourced staff to client staff for the six months period ended 2014. The major increase in gross profit margin for the staff insourcing service was attributable to the insourcing arrangement of technical development staff with higher skill sets for short term software development projects during the period.

Contact Service Centre Facilities Management Service

For the six months ended 30 June 2014, the contact service centre facilities management service recorded a revenue of approximately HK$14.7 million, representing a slight increase of approximately 0.5% as compared to that of the corresponding period in 2013. The segment results for the six months ended 30 June 2014 was approximately HK$3.4 million. The gross profit margin for contact service centre facilities management service decreased from approximately 25.3% for the six months ended 30 June 2013 to approximately 23.4% for the six months ended 30 June 2014.

The revenue from contact service centre facilities management service was approximately the same mainly due to a stable number of workstations leased by clients during the six months period under review. The slight decrease in gross profit margin for contact service centre facilities management service was attributable to the continued operating expenses of the business centre.

Others

The "Others" segment principally comprises licencing and system maintenance service of, and sales of system and software in relation to Wise-xb Contact Centre System. For the six months ended 30 June 2014, the Group recorded revenue of approximately HK$2.4 million from sales of system and software and HK$1.0 million from system maintenance service.

The segment results for "Others" largely comprises sales of system and software which amounted to approximately HK$2.5 million for the six months ended 30 June 2014.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company increased by approximately 1% from approximately HK$9.8 million for the six months ended 30 June 2013 to approximately HK$9.9 million for the six months ended 30 June 2014. The increase of profit is mainly attributed to the increase of revenue from PRC business units and the segment results improvement of the staff insourcing service.

CAPITAL STRUCTURE

There has been no material change in the capital structure of the Company since the Listing Date. The capital of the Company comprises only ordinary shares.

LIQUIDITY AND FINANCIAL POSITION

The Group adheres to a prudent financial management policy and has a healthy financial position. During the six months under review, the Group financed our operations with internally generated cash flows and banking facilities provided by banks. As at 30 June 2014, the Group had net current assets of approximately HK$69.9 million (as at 31 December 2013: approximately HK$66.7 million) including cash and bank balances of approximately HK$29.7 million (as at 31 December 2013: approximately HK$34.5 million). The decrease in cash and bank balances as at 30 June 2014 was mainly attributable to an increase in trade receivables and purchase of an additional investment fund.

As at 30 June 2014, the Group's current ratio (current assets/current liabilities) and gearing ratio (total debts/total assets) were 3.34 (as at 31 December 2013: 3.31) and 20.31% (as at 31 December 2013: 20.75%) respectively.

COMPARISON BETWEEN BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

An analysis comparing the business objectives of the Company with the Group's actual business progress for the six months period ended 30 June 2014 is set out below:

Business objectives for the six months ended 30 June 2014	Actual business progress up to 30 June 2014
Setting up new contact service centres for capturing the demand from different market segments and more industry sectors	• Approximately HK$4.3 million and HK$3.1 million of the net proceeds from the Placing (as defined in the prospectus of the Company dated 30 December 2011) was used to set up the new Elite Business Centre and new contact centre at Nansha respectively. The new business centre is expected to turn mature by the end of 2014, and shall contribute desirable revenue and profit margin to the Group. The new contact centre in Nansha will further increase the capacity of Group's contact centre operation and business in China. • Actual application of the proceeds from the Placing is lower than the planned use. Further investment shall be made to fully equip the Nasha contact centre as needed. The Directors will continue to evaluate the Group's business objectives and may change or modify plans after taking into account the changing market conditions and opportunities.

Business objectives for the six months ended 30 June 2014	**Actual business progress up to 30 June 2014**
Enhancing capabilities of existing contact service centre facilities	• Approximately HK$1.6 million was used to improve the physical environment and upgrade the systems and third party software of the existing contact centres. • The Board planned to continuously enhance the contact centres facilities and environment to maintain the competitiveness of our services in the market.

USE OF PROCEEDS

The business objectives and planned use of proceeds from the Placing were based on the best estimation of future market conditions made by the Group while the proceeds were applied in accordance with the actual development of the market. During the period from the Listing Date to 30 June 2014, the net proceeds from the Placing had been applied as follows:

	Total use of proceeds (HK$ million)	Actual use of proceeds from the Listing Date to 30 Jun 2014 (HK$ million)	Remaining proceeds for future use (HK$ million)
Setting up new contact service centres for capturing the demand from different market segments and more industry sectors	14.0	7.4	6.6
Expanding and enhancing our contact centre system and software	7.5	7.5	–
Enhancing capabilities of existing contact service centre facilities	4.0	1.6	2.4
Use as general working capital of our Group	1.5	1.5	–
Total:	27.0	18.0	9.0

The Directors intend to revisit the business objectives for the period from the Listing Date to 30 June 2014. The Directors will regularly evaluate the Group's business objectives and may change or modify plans after taking into account the changing market conditions.

Any net proceeds from the Placing that will not be applied immediately have been temporarily deposited with banks in Hong Kong as at the date of this report.

PLEDGE OF ASSETS

As at 30 June 2014, the Group had pledged its bank deposits of approximately HK$4.8 million (as at 31 December 2013: approximately HK$4.8 million) and had pledged investment fund amounted to approximately HK$8.2 million (as at 31 December 2013: approximately HK$4.8 million) to secure its banking facilities and trade receivable financing.

FOREIGN EXCHANGE EXPOSURE

Substantially all the revenue-generating operations of the Group were transacted in Hong Kong dollars during the period under review which is the functional currency of the Company and the presentation currency of the Group. The Group therefore does not have significant foreign exchange risk.

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Save for those disclosed in this report, there were no significant investments held as at 30 June 2014, nor were there material acquisitions and disposals of subsidiaries during the year.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for those disclosed in this report, there is no plan for material investments or capital assets as at the date of this report.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENT

Save for those disclosed in this report, the Group did not have any contingent liabilities as at 30 June 2014.

NUMBER AND REMUNERATION OF EMPLOYEE

The Group employed 1,035 employees as at 30 June 2014 (as at 30 June 2013: 760 employees). Remuneration was maintained at competitive levels with discretionary bonuses payable on a merit basis and in line with industry practice. The remuneration packages mainly comprise salary payments, group medical insurance plans, mandatory provident fund and discretionary bonuses awarded on a performance basis.

CORPORATE GOVERNANCE

The Company has complied with the code provisions as set out in Appendix 15 to the GEM Listing Rules throughout the six months period ended 30 June 2014.

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 six months period ended 30 June 2014.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 21 December 2011 (the "Share Option Scheme"). Since the adoption of the Share Option Scheme and up to 30 June 2014, no share option had ever been granted under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Apart from the Share Option Scheme, at no time during the six months ended 30 June 2014 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 of 18 years, 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

As at 30 June 2014, as far as the Directors are aware of, save that 廣州潤寶信息科技有限公司 (Guangzhou Epro Information Technology Co., Ltd.[#]) is owned as to 60% by Epro Techsoft Limited, which is in turn ultimately and beneficially owned by Mr. Ling Chiu Yum, Mr. Wong Wai Hon Telly and Ms. Chang Men Yee Carol, who are executive Directors, as to 46%, 47% and 5% respectively, none of the Directors or the Controlling Shareholders of the Company (as defined in the GEM Listing Rules) 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 six months ended 30 June 2014.

COMPLIANCE ADVISER'S INTEREST

As notified by Mizuho Securities Asia Limited, the compliance adviser of the Company (the "Compliance Adviser"), none of the Compliance Adviser, or its directors, employees or associates (as defined under the GEM Listing Rules) had any interest in the share capital of the Company or any right to subscribe for or to nominate any person to subscribe shares in the Company or any member of the Group as at 30 June 2014 pursuant to Rule 6A.32 of the GEM Listing Rules. Pursuant to an agreement entered into between the Company and the Compliance Adviser in 2011, the Compliance Adviser has only received a fee for acting as the Company's compliance adviser until its termination.

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 June 2014, 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 as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors referred to in Rules 5.46 to 5.67 of the GEM Listing Rules 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 June 2014
Mr. Ling Chiu Yum *(Note)*	Interest in a controlled corporation	Corporate interest	210,000,000	75%
Mr. Wong Wai Hon Telly *(Note)*	Interest in a controlled corporation	Corporate interest	210,000,000	75%
Ms. Chang Men Yee Carol *(Note)*	Interest in a controlled corporation	Corporate interest	210,000,000	75%

Note:–

Excel Deal Holdings Limited, a company incorporated in the British Virgin Islands, held 210,000,000 shares, was beneficially owned as to 47% by Mr. Wong Wai Hon Telly, 46% by Mr. Ling Chiu Yum and 5% by Ms. Chang Men Yee Carol respectively. Mr. Wong Wai Hon Telly, Mr. Ling Chiu Yum and Ms. Chang Men Yee Carol were therefore deemed to be interested in the shares of the Company held by Excel Deal Holdings Limited by virtue of Part XV of the SFO.

Save as disclosed above, as at 30 June 2014, 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 as otherwise notified to the Company and the Stock Exchange pursuant to the standard of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

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 June 2014, the following persons (not being a Director or Chief Executive) who had interests or short positions in the shares or underlying shares of the Company 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 June 2014
Excel Deal Holdings Limited *(Note 1)*	Beneficial owner	210,000,000	75%
Million Top Enterprises Ltd. *(Note 2)*	Beneficial owner	25,000,000	8.92%

Notes:–

(1) Excel Deal Holdings Limited, a company incorporated in the British Virgin Islands, was beneficially owned as to 47% by Mr. Wong Wai Hon Telly, 46% by Mr. Ling Chiu Yum and 5% by Ms. Chang Men Yee Carol respectively.

(2) Million Top Enterprises Ltd. was wholly beneficially owned by Mr. Tang Shing Bor.

Save as disclosed above, as at 30 June 2014, 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 six months ended 30 June 2014 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 six months ended 30 June 2014.

By order of the Board
ETS Group Limited
Wong Wai Hon Telly
Chairman and Executive Director

Hong Kong, 4 August 2014

 # The English translation of Chinese names or words in this report, where indicated, are included for identification purpose only, and should not be regarded as the official English translation of such Chinese names or words.

As at the date of this report, the executive directors of the Company are Mr. Ling Chiu Yum (Honorary Chairman), Mr. Wong Wai Hon Telly (Chairman), Ms. Chang Men Yee Carol (Chief Executive Officer), Mr. Suen Fuk Hoi (Company Secretary) and Mr. Phung Nhuong Giang; and the independent non-executive directors of the Company are Mr. Wong Sik Kei, Mr. Ngan Chi Keung and Mr. Yung Kai 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.