



ETS GROUP LIMITED

易通訊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code:8031



2020

FIRST QUARTERLY
REPORT



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

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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 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 decreased from approximately HK\$36,623,000 for the three months ended 31 March 2019 to approximately HK\$30,375,000 for the three months ended 31 March 2020.

Profit attributable to owners of the Company for the three months ended 31 March 2020 was approximately HK\$1,103,000, representing a decrease of approximately 56% as compared with the profit attributable to owners of the Company of approximately HK\$2,534,000 for the corresponding period in 2019.

Earnings per share for the three months ended 31 March 2020 was approximately HK0.39 cents (three months ended 31 March 2019: approximately HK0.91 cents).

The board of Directors does not recommend an interim dividend for the three months ended 31 March 2020 (2019: nil).

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 2020 together with the comparative figures for the corresponding period ended 31 March 2019 as follows:

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

For the three months ended 31 March 2020

		Three months ended 31 March	
Notes	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	
Revenue	30,375	36,623	
Other income	41	38	
Other (losses)/gains – net	(21)	2	
Employee benefits expenses	(21,793)	(24,541)	
Depreciation and amortization	(3,174)	(1,757)	
Other operating expenses	(3,955)	(7,205)	
Operating profit	1,473	3,160	
Finance costs	(98)	(62)	
Profit before tax	1,375	3,098	
Income tax expense	(272)	(564)	
Profit for the period	1,103	2,534	
Total comprehensive income for the period	1,103	2,534	
Profit attributable to owners of the Company	1,103	2,534	
Total comprehensive income attributable to owners of the Company	1,103	2,534	
Earnings per share attributable to owners of the Company			
– Basic and diluted (HK cents)	0.39	0.91	



NOTES TO THE FINANCIAL INFORMATION

For the three months ended 31 March 2020

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 of the year 2020 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 of the year 2020 were consistent with those applied for the consolidated financial statements of the Group for the year ended 31 December 2019.

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 2020, 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	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Outsourcing inbound contact services	2,520	2,653
Outsourcing outbound contact services	5,192	9,451
Staff insourcing services	12,382	15,803
Contact service centre facilities management services	3,606	3,038
Financial services	5,166	5,061
Others*	1,509	617
	30,375	36,623

* Others: segment which principally comprises system maintenance income, licencing income and sales of system and software income.

4. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at a rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in or derived from Hong Kong for the three months period ended 31 March 2020.

	Three months ended 31 March	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Current income tax	272	564
Deferred income tax	-	-
	272	564

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 2020 is based on (i) the unaudited consolidated profit attributable to the owners of the Company of approximately HK\$1,103,000 (three months ended 31 March 2019: approximately HK\$2,534,000) and (ii) the weighted average number of 280,000,000 ordinary shares issued during the three months ended 31 March 2020 (during the three months ended 31 March 2019: 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 2020 and three months ended 31 March 2019.

6. MOVEMENT OF RESERVES

	Attributable to owners of the Company				Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Retained profits HK\$'000	
Balance at 1 January 2019 (audited)	2,800	25,238	25,624	59,917	113,579
Profit for the period	-	-	-	2,534	2,534
Total other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	2,534	2,534
Balance at 31 March 2019 (unaudited)	2,800	25,238	25,624	62,451	116,113
Balance at 1 January 2020 (audited)	2,800	25,238	25,624	67,508	121,170
Profit for the period	-	-	-	1,103	1,103
Total other comprehensive income for the period	-	-	-	-	-
Total comprehensive income for the period	-	-	-	1,103	1,103
Interim dividend paid	-	-	-	-	-
Balance at 31 March 2020 (unaudited)	2,800	25,238	25,624	68,611	122,273

7. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED RESULTS

The unaudited condensed consolidated results of the Group for the three months ended 31 March 2020 were approved by the Board on 5 May 2020.



DIVIDEND

The Board does not recommend the payment of any interim dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review and Prospects

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

The outbreak of the coronavirus epidemic started from late January 2020 brought tremendous pressure and challenges to our contact centre operation which requires physical presence of our workforce. The management of the Group had taken comprehensive measures to ensure the safety of our work place and our staff during the period, and thus resulted in the least disruption to our services.

Nevertheless, the business environment dramatically worsened during the period under review. US-China trade war, large scale domestic protest and especially the coronavirus pandemic severely impacted not only the local consumer economics but also the overall business environment in Hong Kong. The unprecedented containment and home office safety measures helped to control the spread of the coronavirus but at the same time also significantly slowed down the normal operation of various businesses. The lack of activities and negative sentiment led to projects and hiring of our clients being postponed, suspended or aborted. A number of financial projects, investment opportunities and negotiations that were underway during the end of 2019 have been brought to a halt or delayed due to the overall downturn of the capital market. As a result, revenue across various segments in the reporting period has been affected and the management of the Group anticipates the negative impact on our business of both of the contact centre and financial services sectors may continue into the remaining period of this fiscal year. The management of the Group is currently looking into the details of various stimulation policies implemented by the Government and will try to obtain any possible support available to our business.



Where there is risk, there is opportunity. New contact centre services to support our clients' operation, handle enquiries on coronavirus as well as anti-epidemic subsidy schemes have been set up and provided in the midst of the epidemic. Besides, our multi-social-media Marvel Contact Centre System has received encouraging feedback and interest from both existing and new clients, and the Group plans to further expand our sales through increasing collaboration with different partners. With the COVID-19 epidemic gradually eases, the Group is optimistic that business and sales will start to come back, and some projects will revive and become active again in the near future.

To go forward, the management of the Group will continue to develop, expand and diversify our businesses, as well as implement cost-saving initiatives to cope with the difficult situation before the business momentum resumes.

Financial Review

The Group's total revenue decreased from approximately HK\$36.6 million for the three months ended 31 March 2019 to approximately HK\$30.4 million for the three months ended 31 March 2020. The decreased of revenue mainly contributed by the decrease of the revenue generated from outsourcing outbound contact services and staff insourcing services. The employee benefits expenses decreased from approximately HK\$24.5 million for the three months ended 31 March 2019 to approximately HK\$21.8 million for the three months ended 31 March 2020 mainly due to the decrease of employment for staff insourcing services. The other operating expenses decreased from approximately HK\$7.2 million for the three months ended 31 March 2019 to approximately HK\$4.0 million for the three months ended 31 March 2020 mainly due to the decrease of subcontracting charges and rental expenses.

In order to comply with the relevant accounting standard, the expenditures of rental were recorded in the account of depreciation and finance cost. As a result, the Group recorded a drop in rental expenses account and an increase of depreciation and finance cost account. The Group's depreciation and amortization expenses increased from approximately HK\$1.8 million for the three months ended 31 March 2019 to approximately HK\$3.2 million for the three months ended 31 March 2020. The Group's finance costs increased from approximately HK\$0.06 million for the three months ended 31 March 2019 to approximately HK\$0.1 million for the three months ended 31 March 2020.



The unaudited profit attributable to owners of the Company decreased from approximately HK\$2.5 million for the three months ended 31 March 2019 to approximately HK\$1.1 million for the three months ended 31 March 2020, mainly due to the decrease of revenue in the period under review.

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 2020 except for the code provision A.6.2(a) of the Code, details of which are set out below.

According to code provision 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 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 on the Directors, all Directors confirmed that they have complied with the required standard of dealings concerning securities transactions for the three months ended 31 March 2020.

SHARE OPTION SCHEME

During the three months ended 31 March 2020, 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 ended 31 March 2020 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.



NON-COMPETITION UNDERTAKING

As disclosed in the announcement of the Company dated 24 October 2019, Gear Credit Limited (“Gear Credit”), which is an indirect wholly-owned subsidiary of the Company, has obtained a money lender’s licence under the Money Lenders Ordinance (“MLO”) and commenced its money lending business.

Prior to the commencement of business of Gear Credit, on 21 October 2019, Mr. Tang Shing Bor (“Mr. Tang”) (our Chairman and non-executive Director), Mr. Tang Yiu Sing (“Mr. YS Tang”) (our Chief Executive Officer and executive Director), H.K. Sources Finance Limited (“HK Sources”) and Kong Way Credit Company Limited (“Kong Way”, together with Mr. Tang, Mr. YS Tang and HK Sources, the “Covenantors”) entered into a deed of non-competition (the “Deed of Non-competition”) in favour of the Company (for itself and as trustee of the members of the Group) with a view to safeguard the interest of the Company and the Shareholders as a whole.

As at the date of the Deed of Non-competition, (i) Mr. Tang is the controlling shareholder of HK Sources, which is a company incorporated in Hong Kong with limited liability and a holder of a money lender’s licence under the MLO and is principally engaged in the provision of mortgage loan; and (ii) Mr. YS Tang is the sole shareholder of Kong Way, which is a company incorporated in Hong Kong with limited liability and a holder of a money lender’s licence under the MLO and is principally engaged in the provision of loans for individuals and small and medium enterprises. Subject to the terms and conditions of the Deed of Non-competition, each of the Covenantors irrevocably and unconditionally, jointly and severally, undertakes to and covenants with the Company (for itself and as trustee for the benefit of the members of the Group) that during the continuation of the Deed of Non-competition, other than the aforementioned shareholding interests held by Mr. Tang and Mr. YS Tang in HK Sources and Kong Way respectively, each of the Covenantors shall not, and shall procure each of his/its close associates (other than any members of the Group) not to, whether on his/its own account or in conjunction with or on behalf of any person, firm or company and whether directly or indirectly, carry on a business which is, or be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by the Group (including but not limited to the provision of comprehensive multi-media contact services, contact centre system, staff insourcing and financial services engaged by the Group and the money lending business engaged by the Group through Gear Credit and/or other member(s) of the Group in Hong Kong and any other country or jurisdiction to which the Group markets, supplies or otherwise provides such service and/or in which any members of the Group carries on business mentioned above from time to time (the “Restricted Business”).



Each of the Covenantors further undertakes that if he/it and/or any of his/its close associates is offered or becomes aware of any project or new business opportunity (“New Business Opportunity”) that relates to the Restricted Business, whether directly or indirectly, he/it shall: (i) promptly in any event not later than three (3) Business Days notify the Company in writing of such opportunity and provide such information as is reasonably required by the Company in order to enable the Company to come to an informed assessment of such opportunity; and (ii) use his/its best endeavours to procure that such opportunity is offered to the Company on terms no less favourable than the terms on which such opportunity is offered to him/it and/or his/its close associates. If the Group has not given written notice of its desire to invest in such New Business Opportunity or has given written notice denying the New Business Opportunity within five (5) Business Days (the “5-day Offering Period”) of receipt of notice from the Covenantors, the Covenantors and/or his/its close associates shall be permitted to invest in or participate in the New Business Opportunity on his/its own accord. The Covenantors agree to extend the five (5) Business Days to a maximum of ten (10) Business Days if the Company requires so by giving a written notice to the Covenantors within the 5-day Offering Period.

As disclosed in the Company’s 2019 Annual Report, the Company had received written notices from all of the Covenantors in respect of any New Business Opportunity which competed or was likely to compete with the existing business of the Group which was offered or came to the knowledge of the Covenantors or their close associates (other than any member of the Group). Each of the Covenantors has made an annual declaration to the Company in respect of his/its compliance with his/its obligations under the Deed of Non-competition for the year ended 31 December 2019.

DIRECTORS’ INTERESTS IN COMPETING BUSINESS

Save as disclosed above, so far as the Directors are aware of, none of the Directors or the substantial/controllers 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 2020.



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 2020, 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 2020
Mr. Tang Shing Bor	Interest in a controlled corporation	Corporate interest	210,000,000 <i>(Note)</i>	75%

Note:

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

Save as disclosed above, as at 31 March 2020, 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 2020, 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 2020
Million Top Enterprises Limited (<i>Note</i>)	Beneficial owner	210,000,000	75%

Note:

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



Save as disclosed above, as at 31 March 2020, 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 2020 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 2020.

By order of the Board

ETS Group Limited

Tang Yiu Sing

Executive Director and Chief Executive Officer

Hong Kong, 5 May 2020



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.