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ETS GROUP LIMITED
易通訊集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8031)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

CHARACTERISTICS OF THE 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 announcement 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 announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

FINANCIAL HIGHLIGHTS

The Group's revenue for the year ended 31 December 2020 was approximately HK\$104,211,000 representing a decrease of approximately 21.3% as compared to that of approximately HK\$132,333,000 in 2019.

Loss attributable to owners of the Company for the year ended 31 December 2020 was approximately HK\$5,137,000 representing a decrease of approximately 167.7% as compared to profit attributable to owners of the Company approximately HK\$7,591,000 in 2019.

Loss per share for the year ended 31 December 2020 was HK1.8 cents (2019 Earnings per share: HK2.7 cents).

The board of Directors does not recommend a final dividend for the year ended 31 December 2020 (2019: nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020	2019
	Notes	HK\$'000	HK\$'000
Revenue	3	104,211	132,333
Other income		14,636	251
Other losses – net		(6,772)	(2,018)
Employee benefits expenses		(76,864)	(89,086)
Depreciation and amortization		(12,010)	(11,296)
Other operating expenses		(27,952)	(20,481)
Operating (loss)/profit		(4,751)	9,703
Finance costs		(399)	(326)
(Loss)/Profit before tax	4	(5,150)	9,377
Income tax credit/(expense)	5	13	(1,786)
(Loss)/Profit for the year		(5,137)	7,591
Other comprehensive income for the year		–	–
Total comprehensive (expense)/income for the year		(5,137)	7,591
(Loss)/Profit attributable to owners of the Company		(5,137)	7,591
Total comprehensive (expense)/income for the year attributable to owners of the Company		(5,137)	7,591
(Loss)/Earnings per share attributable to owners of the Company			
– Basic and diluted (<i>HK cents</i>)	6	(1.8)	2.7

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		1,320	5,509
Right-of-use assets		5,246	10,236
Intangible assets		5,437	12,379
Financial assets at fair value through profit or loss		—	—
Deferred income tax assets		1,171	805
Other assets		205	205
		13,379	29,134
Current assets			
Contract assets		3,287	8,624
Trade and other receivables	7	46,727	47,024
Financial assets at fair value through profit or loss		1,644	—
Tax recoverable		704	127
Pledged bank deposits		9,108	9,080
Bank trust account balances		11,738	9,823
Cash and cash equivalents		59,455	57,899
		132,663	132,577
Current liabilities			
Contract liabilities		1,888	1,931
Trade and other payables	8	21,855	26,176
Amount due to a related company		9	13
Current income tax liabilities		282	1,964
Borrowings		3,000	5,000
Lease liabilities		2,929	3,381
		29,963	38,465
Net current assets		102,700	94,112
Total assets less current liabilities		116,079	123,246

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Deferred income tax liabilities		46	91
Lease liabilities		<u>–</u>	<u>1,985</u>
		46	2,076
Net assets		<u>116,033</u>	<u>121,170</u>
Equity attributable to the owners of the Company			
Share capital	9	2,800	2,800
Share premium	9	25,238	25,238
Reserves		<u>87,995</u>	<u>93,132</u>
Total equity		<u>116,033</u>	<u>121,170</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

ETS Group Limited (the “**Company**”) is an investment holding company. ETS Group Limited and its subsidiaries (collectively referred as to the “**Group**”) are principally engaged in providing comprehensive multi-media contact services, contact centre system, staff insourcing and financial services in Hong Kong.

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 and its shares have been listed on the GEM of the Stock Exchange of Hong Kong Limited with effect from 9 January 2012.

As at 31 December 2020, the directors of the Company regard Million Top Enterprises Limited, a company incorporated in Hong Kong with limited liability, as the parent and ultimate holding company of the Company. Mr. Tang Shing Bor (“**Mr. SB Tang**”) is the ultimate controlling shareholder of the Group.

The address of the Company’s registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of the Company’s principal place of business in Hong Kong is 4th Floor, China Paint Building, 1163 Canton Road, Mongkok, Kowloon, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars (“**HK\$**”), unless otherwise stated. These consolidated financial statements have been approved for issued by the Board of Directors on 19 March 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standard (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. The consolidated financial statements set out in this announcement have been prepared under the historical cost convention, as modified by the revaluation of the financial assets at fair value through profit or loss which are measured at fair value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

2.1.1 Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1.2 New standards and amendments to existing standards not yet adopted

Certain new accounting standards and amendments to existing standards have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group:

Standards	Subject	Effective for annual periods beginning on or after
Amendment to HKFRS 16	COVID-19-Related Rent Concessions	1 June 2020
Amendments to HKFRS 3	Reference to the Conceptual Framework	1 January 2022
HKFRS 17	Insurance Contracts and the related Amendments	1 January 2023
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	A date to be determined
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)	1 January 2023
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020	1 January 2022

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SEGMENT INFORMATION AND REVENUE

The directors of the Company 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:

- a. Outsourcing inbound contact services;
- b. Outsourcing outbound contact services;
- c. Staff insourcing services;
- d. Contact service centre and service centre facilities management services;
- e. Financial services segment which principally comprises commission income from broker business, asset management services and credit finance; and
- f. The "Others" segment which principally comprises sales of system and software, licence service fee income, system maintenance fee income and personnel services.

The segment information provided to the board of directors for the reportable segments for the years ended 31 December 2020 and 2019 are as follows:

For the year ended 31 December 2020

	Outsourcing inbound contact services HK\$'000	Outsourcing outbound contact services HK\$'000	Staff insourcing services HK\$'000	Contact service centre and service centre facilities management services HK\$'000	Financial services HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue	<u>11,383</u>	<u>8,253</u>	<u>46,260</u>	<u>13,946</u>	<u>19,418</u>	<u>4,951</u>	<u>104,211</u>
Segment results	<u>1,312</u>	<u>(1,895)</u>	<u>3,355</u>	<u>3,628</u>	<u>(3,461)</u>	<u>1,834</u>	<u>4,773</u>
Depreciation and amortization	<u>1,860</u>	<u>1,223</u>	<u>–</u>	<u>3,392</u>	<u>2,877</u>	<u>1,784</u>	<u>11,136</u>
Total segment assets	<u>4,271</u>	<u>1,338</u>	<u>8,481</u>	<u>7,372</u>	<u>41,951</u>	<u>2,845</u>	<u>66,258</u>
Total segment assets includes: Additions to non-current assets (other than financial instruments)	<u>292</u>	<u>192</u>	<u>–</u>	<u>533</u>	<u>18</u>	<u>427</u>	<u>1,462</u>
Total segment liabilities	<u>2,169</u>	<u>346</u>	<u>3,802</u>	<u>1,327</u>	<u>14,652</u>	<u>947</u>	<u>23,243</u>

For the year ended 31 December 2019

	Outsourcing inbound contact services HK\$'000	Outsourcing outbound contact services HK\$'000	Staff insourcing services HK\$'000	Contact service centre and service centre facilities management services HK\$'000	Financial services HK\$'000	Others HK\$'000	Total HK\$'000
Segment revenue	<u>11,833</u>	<u>28,180</u>	<u>56,291</u>	<u>10,913</u>	<u>21,029</u>	<u>4,087</u>	<u>132,333</u>
Segment results	<u>1,364</u>	<u>4,002</u>	<u>5,707</u>	<u>2,447</u>	<u>7,027</u>	<u>1,560</u>	<u>22,107</u>
Depreciation and amortization	<u>1,186</u>	<u>2,877</u>	<u>–</u>	<u>2,870</u>	<u>1,737</u>	<u>1,754</u>	<u>10,424</u>
Total segment assets	<u>5,398</u>	<u>14,859</u>	<u>10,328</u>	<u>10,713</u>	<u>39,688</u>	<u>3,736</u>	<u>84,722</u>
Total segment assets includes: Additions to non-current assets (other than financial instruments)	<u>1,173</u>	<u>2,847</u>	<u>–</u>	<u>2,840</u>	<u>4</u>	<u>1,353</u>	<u>8,217</u>
Total segment liabilities	<u>1,574</u>	<u>2,518</u>	<u>2,444</u>	<u>1,561</u>	<u>19,590</u>	<u>1,055</u>	<u>28,742</u>

There were no inter-segment sales during the years ended 31 December 2020 and 2019. The revenue from external parties reported to the directors of the Company is measured in a manner consistent with that in the consolidated statement of profit or loss and other comprehensive income.

A reconciliation of segment results to loss/profit before tax is as follows:

	2020 HK\$'000	2019 HK\$'000
Segment results for reportable segments	4,773	22,107
Unallocated:		
Other income	14,636	251
Other losses – net	(6,772)	(2,018)
Depreciation and amortization	(861)	(872)
Finance costs	(285)	(326)
Corporate and other unallocated expenses	(16,641)	(9,765)
(Loss)/Profit before tax	(5,150)	9,377

The amounts provided to the directors of the Company with respect to total assets are measured in a manner consistent with that of the consolidated financial statements. These assets are allocated based on the operations of the segment.

Reportable segments' assets are reconciled to total assets as follows:

	2020 HK\$'000	2019 HK\$'000
Segment assets for reportable segments	66,258	84,722
Unallocated:		
Property, plant and equipment	10	23
Right-of-use assets	1,357	1,218
Tax recoverable	704	127
Deferred income tax assets	1,171	805
Financial assets at fair value through profit or loss	1,644	–
Corporate and other unallocated assets	74,898	74,816
Total assets per consolidated statement of financial position	146,042	161,711

The amounts provided to the directors of the Company with respect to total liabilities are measured in a manner consistent with that of the consolidated financial statements. These liabilities are allocated based on the operations of the segment.

Reportable segments' liabilities are reconciled to total liabilities as follows:

	2020 HK\$'000	2019 HK\$'000
Segment liabilities for reportable segments	23,243	28,742
Unallocated:		
Deferred income tax liabilities	46	91
Current income tax liabilities	282	1,964
Borrowings	3,000	5,000
Lease liabilities	75	1,827
Corporate and other unallocated liabilities	3,363	2,917
Total liabilities per consolidated statement of financial position	30,009	40,541

Breakdown of the revenue from all services is as follows:

Analysis of revenue by category

	2020 HK\$'000	2019 HK\$'000
Service fee income from provision of telecommunication and related services	33,582	50,926
Financial services income	17,023	20,499
Licencing and sales of system and software	2,887	2,223
System maintenance income	1,999	1,864
Staff insourcing services and personnel services	46,325	56,291
Revenue from contracts with customers	101,816	131,803
Interest income arising from		
– Loans	2,332	233
– Margin clients	63	297
Total revenue	104,211	132,333

The Company is domiciled in the Cayman Islands with the Group's major operations located in Hong Kong. The result of its revenue from external customers in Hong Kong is approximately HK\$103,100,000 (2019: approximately HK\$131,591,000), and the total of revenue from external customers from other country is approximately HK\$1,111,000 (2019: approximately HK\$742,000).

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) located in Hong Kong is approximately HK\$12,003,000 (2019: approximately HK\$28,124,000), and none of these non-current assets is located in other countries (2019: Nil).

Information about major customers

Revenue from major customers, each of whom contributed to 10% or more of the Group's total revenues, is set out below:

	2020 HK\$'000	2019 HK\$'000
Customer A	N/A ¹	31,551
Customer B	N/A ¹	N/A ¹
Customer C	18,946	23,956
Customer D	N/A ¹	15,622
	<u> </u>	<u> </u>

¹ The corresponding revenue did not contribute to 10% or more of the total revenues of the Group in the respective year.

4. LOSS/PROFIT BEFORE TAX

	2020 HK\$'000	2019 HK\$'000
Loss/Profit before tax is stated after charging:		
<i>Depreciation and amortization</i>		
Depreciation of owned property, plant and equipment	1,927	2,874
Depreciation of right-of-use assets	6,387	4,479
Amortization of intangible assets	3,696	3,943
	<u> </u>	<u> </u>
Total depreciation and amortization	<u>12,010</u>	<u>11,296</u>
Auditors' remuneration	1,000	1,100
Provision for impairment of financial and contract assets – net	13,164	487
Expenses relating to short-term leases	110	1,721
	<u> </u>	<u> </u>

5. INCOME TAX (CREDIT)/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 year.

	2020 HK\$'000	2019 HK\$'000
Current tax:		
Current tax on profits for the year	469	1,698
Adjustment in respect of prior year	(71)	(184)
Total current tax	398	1,514
Deferred income tax	(411)	(272)
Income tax (credit)/expense	(13)	1,786

6. LOSS/EARNINGS PER SHARE

The calculation of the basic loss/earnings per share attributable to owners of the Company is based on (i) the loss/profit attributable to owners of the Company for the year; and (ii) the weighted average number of 280,000,000 ordinary shares issued during the year (2019: 280,000,000 ordinary shares).

The diluted loss/earnings per share is equal to the basic loss/earnings per share as there were no dilutive potential ordinary shares in issue during the years ended 31 December 2020 and 2019.

7. TRADE AND OTHER RECEIVABLES

	2020 HK\$'000	2019 HK\$'000
Trade receivables		
Amounts receivables arising from multi-media contact services, contact centre system and advisory services	32,660	27,066
Amounts receivables arising from financial services business		
– Client-margin	–	2,197
– Clearing house	705	6,250
Loan receivables	21,386	5,038
Less: loss allowance	(14,235)	(1,257)
Trade receivables – net	40,516	39,294
Other receivables, deposits and prepayments	6,452	7,759
Less: loss allowance	(241)	(29)
Other receivables, deposits and prepayment – net	6,211	7,730
	46,727	47,024

The average credit period on the Group's sales is 30 days (2019: 30 days). The aging analysis of the trade receivables net of loss allowance based on invoice date is as follows:

	2020 HK\$'000	2019 <i>HK\$'000</i>
0–30 days	5,643	10,500
31–60 days	1,530	3,021
61–90 days	1,139	2,800
Over 90 days	10,193	9,637
	18,505	25,958

The settlements of amounts receivables arising from financial services business are two days after trade date. No aging analysis is disclosed as, in the opinion of the directors, the aged analysis does not give additional value in view of nature of these receivables.

Margin clients are required to pledge securities collateral to the Group in order to obtain the margin facilities for securities trading. As at 31 December 2019, loan to margin client is secured by client's securities pledged as collateral with market value of approximately HK\$15,428,000. Management has assessed the market value of the pledged securities of each individual client who has margin shortfall at the end of each reporting period. The margin loan is repayable on demand bear variable interest at commercial rates and denominated in HK\$.

The Group's loan receivables, which arise from the money lending business, are denominated in HK\$. The loan receivables are mainly secured by properties located in Hong Kong and are not past due based on contractual maturity date as at 31 December 2020. All the loan receivables are entered with contractual maturity within 1 year. Loan receivables are interest-bearing at a rate range from 11% to 20% (2019: 12% to 20%) per annum.

8. TRADE AND OTHER PAYABLES

	2020 HK\$'000	2019 <i>HK\$'000</i>
Trade payables	887	2,486
Amounts payable arising from financial services business		
– Clients-cash	11,147	6,992
– Clients-margin	1,032	3,582
– Clearing house	260	5,496
Other payables and accruals	8,529	7,620
	21,855	26,176

At 31 December 2020, the aging analysis of the trade payables based on invoice date is as follows:

	2020 HK\$'000	2019 HK\$'000
0–30 days	374	1,260
31–60 days	221	761
61–90 days	152	227
Over 90 days	140	238
	<u>887</u>	<u>2,486</u>

The settlements of amounts payable arising from financial services business are two days after trade date. No aging analysis is disclosed as, in the opinion of the directors, the aged analysis does not give additional value in view of the nature of these payables.

9. SHARE CAPITAL AND PREMIUM

	Number of ordinary shares	Ordinary shares of HK\$0.01 each HK\$'000	Share premium HK\$'000
Ordinary shares, issued and fully paid up:			
As at 31 December 2020 and 2019	<u>280,000,000</u>	<u>2,800</u>	<u>25,238</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ENVIRONMENT AND BUSINESS REVIEW

The Group is principally engaged in the business of providing comprehensive multi-media contact centre services as well as system solutions. The principle activities of the Group include provisions of outsourcing inbound and outbound contact services, staff insource service, contact centre facilities management service and omni-channel contact centre system. The Group also carries out regulated financial activities including securities trading, advisory as well as asset management services through our Type 1, Type 4 and Type 9 licensed financial entities.

The Hong Kong economy contracted by 6.1% for 2020 as a whole which marked the sharpest annual decline on record. The economy saw a visibly enlarged year-on-year contraction of 9.0% in the first half of 2020 as the COVID-19 pandemic dealt a heavy blow to global and local economic activities. The economy showed some improvement in the second half of the year and recorded narrowed contractions of 3.6% and 3.0% respectively in the third and fourth quarters, partly thanks to an improved external environment.

The year of 2020 was proved to be one of the most difficult and challenging years in the history of the Company. The COVID-19 pandemic had devastated a broad range of industries causing disruption to a lot of businesses directly and indirectly. Although the local government had carried out substantial fiscal as well as monetary measures to support the communities at both business and personal levels, the continual waves of outbreak throughout the year had not only weakened the current economy seriously but also created a lot of uncertainties to any future business investment and strategies.

Besides, the deterioration in business and economic conditions to a certain extent, has eroded the confidence of customers and investors. The sale of the Group's contact centre services and system solutions unavoidably faced a drop in demand or temporary order suspension during the period as a result of a slowdown in business activities and postponed decision making. While at the same time data security concerns and call blocking mobile apps continued to impact unfavourably on our clients' outsourcing sentiment particularly on outsourcing outbound contact centre services. On the whole, a shrinkage in the scale of operation during the period had resulted in a lower profit margin of some of our service segments.

To pave way for a rebound of the economy and maintain the competitiveness of our Marvel Contact Centre System (“**Marvel**”), the Group has recently undergone a massive revamp of our system solution to support traditional, digital as well as different social media communications for contact centre operation. In addition, the Group has also integrated AI-knowledgebase, AI-chatbot and AI-voicebot capabilities to our system solution to deliver a truly comprehensive and integrated communication platform for our clients. So far, Marvel has received very encouraging feedbacks, and the Group looks forward to a pickup in demand when the economy and business activities take a positive turn in the near future.

The local stock market exhibited considerable volatility in 2020 as market sentiment was swayed by concerns over the global economic outlook amid the COVID-19 pandemic and the development of the China-US relations. Despite the uncertainties, trading in local stock market and loans for use remained active after the first quarter of 2020, and the Group has gradually captured the momentum of business in securities investment and placing as well as secured lending services during the period.

The Group is continuously engaged in the business of providing comprehensive multi-media contact services and contact centre system and financial services. The principle services of the Group include:

Outsourcing Inbound Contact Service

The Group provides multi-media inbound contact service which our clients outsource to us. The inbound contact services we provide include general enquiry hotlines, promotion hotlines, customer service hotlines, order hotlines, registration hotlines, emergency hotlines and helpdesk hotlines. Our inbound operation covers 24 hours a day and 7 days a week.

Outsourcing Outbound Contact Service

The Group bases on the call lists provided by our clients to perform outsourcing outbound contact services including telemarketing services, customer retention services, cross-selling and customer satisfaction surveys. These services are carried out at calling hours specified by our clients.

Staff Insourcing Service

The Group assigns contact service staff that meets the required qualification and requirements to work at our clients' contact service centres or other designated premises to help our clients in the operation of their contact services or business. We provide our clients with staff to support their activities such as customer service, telemarketing, data entry, helpdesk assistance and other backend projects.

Contact Service Centre and Service Centre Facilities Management Service

The contact service centre and service centre facilities management service is comprised of four types of service including (a) leasing of our contact centre facilities in form of workstation; (b) IVRS hosting service; (c) contact centre system hosting solution; and (d) service centre facility management.

Financial Services

The Group provides financial services under regulated activities licenses issued by the Securities and Futures Commission (“SFC”):

- (a) Securities trading and margin lending services (Type 1 – dealing in securities);
- (b) Securities advisory services (Type 4 – advising on securities); and
- (c) Asset management service (Type 9 – asset management)

The Group also provides commercial and personal money lending or credit financing services under our money lender’s license.

Others

The “Others” segment which principally comprises sales of system and software, licence service fee income, system maintenance fee income and personnel services.

PROSPECT

Despite the fact that the global and local economy seems to start to recover at the beginning of this year, its recovery path going forward will hinge crucially on the development of the pandemic. The Group believes if the Government’s enhanced efforts to fight the virus and the local vaccination campaign can yield the intended results, there would be a more solid and sustainable revival of domestic economic activities in the second half of year 2021.

With people and corporations remain vigilant on masking and social distancing, it is believed that face-to-face business interaction is unlikely to rebound sharply in the foreseeable future. The management of the Group believes demand of outsourcing and insourcing contact centre services would take up considerably alongside the gradual resumption of business activities, and the new social media and AI chatbot and voicebot capabilities of our contact centre system solution would also attract more sales opportunities for our core business.

In the financial arena, the Group continues to explore securities business opportunities in both retail and institutional segments, with special focus on the latter in equity fund setup and distribution. The business connections and network we built up in the past years allowed us to create a lot of synergies with our partners and potential investors, making it possible for the Group to pursue different financial deals in the near future.

With the Government continued to strengthen Hong Kong's economic links with the Mainland, the Agreement Concerning Amendment to CEPA Agreement on Trade in Services (Amendment Agreement) implemented in June 2020 has further lowered the market access thresholds in the Mainland for Hong Kong financial service providers. It is the intention of the management of the Group to further extend our presence in the Greater Bay Area followed the uplift of COVID-19 travel restriction and border closure with mainland China. By leveraging our practical local experience, knowledge of the market and collaboration with local and global business partners, we believed our unique position will be able to gain traction among investors in the area and expand our business opportunities beyond the border.

In addition to managing our traditional financial business in securities trading and advisory services and asset management services, the Group is also interested in studying the development of virtual assets services. The SFC has issued the first virtual asset trading platform license for Type 1 (dealing in securities) and Type 7 (providing automated trading services) regulated activities in December 2020. The management of the Group believes there is great potential in the development of virtual assets in Hong Kong and can further leverage on the synergies of our traditional financial business and resources to create more value for our clients.

In view of the uncertain local business environment, the Group will stay cautious and prepare to respond to changes and risks in the upcoming economic environment. We will also continue to focus on our core businesses while at the same time explore new opportunities to maximize the potential of our businesses.

Listed financial assets at fair value through profit or loss

Description of the investments	Number of shares held as at 31 December 2020	Carrying amount as at 31 December 2020 HK\$ (approximate)
Tracker Fund (stock code: 2800)	60,000	1,644,000

During the year 2020, the Group had acquired 60,000 Tracker Fund listed shares (stock code: 2800) (“**Listed shares**”). As at 31 December 2020, the Group held 60,000 Tracker Fund listed shares which amount to carrying amount of approximately HK\$1,644,000. The principal purpose of the Company of the acquisition of the Listed shares is to enhance return by utilising the idle cash of the Company. During the year ended 31 December 2020, the Group had received dividend in the amount of approximately HK\$45,000 from its investment in Tracker Fund listed shares. For the year ended 31 December 2020, the Group had recognised gain approximately HK\$194,000 of its investment in Tracker Fund listed shares.

FINANCIAL REVIEW

The Group recorded a loss attributable to owners of the Company amounted approximately HK\$5.1 million for the year ended 31 December 2020 as compared with the profit attributable to owners of the Company approximately HK\$7.6 million for the year ended 31 December 2019. The loss is mainly due to the decrease in revenue and gross profit margin as a result of the outbreak of Novel Coronavirus Disease epidemic as discussed in the section “Business environment and business review” in this announcement, one off impairment of the goodwill and increase of the expected credit loss.

The austere local economic conditions caused by the COVID-19 pandemic had disrupted a lot of businesses in 2020, leading to a significant increase in expected credit losses due to weakened financial conditions as well as higher risk provision of certain clients. The expected credit loss increase from amounted approximately HK\$0.5 million for the year ended 31 December 2019 to amounted approximately HK\$13.1 million for the year ended 31 December 2020.

The goodwill, amounted approximately HK\$4.5 million, arose from acquiring Gear Asset Management Limited, License 9 regulated corporation (“**Acquired Company**”) in 2018, was tested to be impaired due to the Acquired Company generated a loss for the year.

REVENUE AND OTHER INCOME

The Group recorded a decrease in total revenue amounted approximately HK\$28.1 million from approximately HK\$132.3 million for the year ended 31 December 2019 to approximately HK\$104.2 million for the year ended 31 December 2020.

The following table sets forth the analysis of revenue in terms of business nature of our Group for the years ended 31 December 2020 and 2019 respectively:

	Year ended 31 December 2020 HK\$'000		Year ended 31 December 2019 HK\$'000	
Outsourcing inbound contact services	11,383	10.9%	11,833	8.9%
Outsourcing outbound contact services	8,253	7.9%	28,180	21.3%
Staff insourcing services	46,260	44.4%	56,291	42.5%
Contact service centre facilities management services	13,946	13.4%	10,913	8.3%
Financial services	19,418	18.6%	21,029	15.9%
Others	4,951	4.8%	4,087	3.1%
Revenue	<u>104,211</u>	<u>100.0%</u>	<u>132,333</u>	<u>100.0%</u>

Outsourcing Inbound Contact Services

The revenue of outsourcing inbound contact services slightly decreased from approximately HK\$11.8 million for the year ended 31 December 2019 to approximately HK\$11.4 million for the year ended 31 December 2020.

Outsourcing Outbound Contact Services

The revenue of outsourcing outbound contact services decreased from approximately HK\$28.2 million for the year ended 31 December 2019 to approximately HK\$8.3 million for the year ended 31 December 2020.

The decrease of the revenue of outsourcing outbound contact services reflects effect of the challenging business environment mentioned in the section “Business Environment and Business Review”. The tightening regulatory business environment continuously present challenges on the outsourcing outbound contact services.

Staff Insourcing Services

The revenue of staff insourcing services segment decreased from approximately HK\$56.3 million for the year ended 31 December 2019 to approximately HK\$46.3 million for the year ended 31 December 2020. The decrease of the revenue is mainly due to decrease of the demand of the staff insourcing services.

Contact Service Centre and Service Centre Facilities Management Services

The revenue of the contact service centre and service centre facilities management services increased from approximately HK\$10.9 million for the year ended 31 December 2019 to approximately HK\$13.9 million for the year ended 31 December 2020. The increased of the revenue is mainly due to increase of the demand of the contact service centre and service centre facilities management services.

Financial Services

The overall revenue of financial services decreased from approximately HK\$21 million for the year ended 31 December 2019 to approximately HK\$19.4 million for the year ended 31 December 2020.

The revenue of the financial services related to securities business increased from approximately HK\$4.8 million for the year ended 31 December 2019 to approximately HK\$8.8 million for the year ended 31 December 2020. The increase of the revenue is mainly due to increase in the provision of consultancy services related to security products.

The revenue of the financial services related to asset management business decreased from approximately HK\$18.7 million for the year ended 31 December 2019 to approximately HK\$8 million for the year ended 31 December 2020. The decrease of the revenue is mainly due to decrease in the demand of asset management services.

The revenue of the financial services related to credit finance business increased significantly from approximately HK\$0.5 million for the year ended 31 December 2019 to approximately HK\$2.5 million for the year ended 31 December 2020. The increase of the revenue is mainly due to increase in the demand of credit finance services.

Others

For the year ended 31 December 2020, the Group recorded a revenue in licencing and sales of system and software of approximately HK\$2.9 million (2019: approximately HK\$2.2 million), system maintenance income of approximately HK\$2 million respectively (2019: approximately HK\$1.9 million).

SEGMENT RESULT AND GROSS PROFIT MARGIN

The following table sets forth the analysis of segment result and gross profit margin by business units of our Group for the years ended 31 December 2020 and 2019 respectively:

	Year ended 31 December 2020		Year ended 31 December 2019	
	HK\$'000	GP Margin %	HK\$'000	GP Margin %
Outsourcing inbound				
contact service	1,312	11.5%	1,364	11.5%
Outsourcing outbound				
contact service	(1,895)	(23.0%)	4,002	14.2%
Staff insourcing service	3,355	7.3%	5,707	10.1%
Contact service centre				
facilities management				
service	3,628	26.0%	2,447	22.4%
Financial services	(3,461)	(17.8%)	7,027	33.4%
Others	1,834	37.0%	1,560	38.2%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total segment result and				
gross profit margin	<u>4,773</u>	<u>4.6%</u>	<u>22,107</u>	<u>16.7%</u>

The gross profit margin of our Group decreased from approximately 16.7% for the year ended 31 December 2019 to approximately 4.6% for the year ended 31 December 2020.

Outsourcing Inbound Contact Services

The gross profit margin in outsourcing inbound contact services was approximately 11.5% for the year ended 31 December 2019 and was similar to that of approximately 11.5% for the year ended 31 December 2020.

Outsourcing Outbound Contact Services

The gross profit margin in outsourcing outbound contact services decreased from approximately 14.2% for the year ended 31 December 2019 to a gross loss margin approximately 23% for the year ended 31 December 2020. The decrease of segment result and gross profit margin was mainly due to the decrease of revenue and the increase of expected credit loss.

Staff Insourcing Services

The gross profit margin in staff insourcing services decreased from approximately 10.1% for the year ended 31 December 2019 to approximately 7.3% for the year ended 31 December 2020. The decrease in the gross profit margin mainly due to the increase of the employee cost cannot be fully shifted to our customers.

Contact Service Centre and Service Centre Facilities Management Services

The gross profit margin in contact service centre facilities management services increased from approximately 22.4% for the year ended 31 December 2019 to approximately 26% for the year ended 31 December 2020. The increase in gross profit margin in this segment represents the overall improvement in the operation.

Financial Services

The gross profit margin of financial services decreased from the gross profit approximately 33.4% for the year ended 31 December 2019 to the gross loss approximately 17.8% for the year ended 31 December 2020. The decrease of gross margin of financial services is mainly due to the drop on our asset management business and increase of the expected credit loss for provision of asset management services for one of our major customers amounted approximately HK\$11 million.

Others

The gross profit margin of other services slightly decreased from the gross profit approximately 38.2% for the year ended 31 December 2019 to the gross profit approximately 37% for the year ended 31 December 2020.

OTHER INCOME

The other income increased from approximately HK\$0.3 million for the year ended 31 December 2019 to approximately HK\$14.6 million for the year ended 31 December 2020. The other income represents the bank interest income, trading securities dividend income and the government subsidy fund. The other income largely increased due to the Group received the local government subsidy related to employment amounted approximately HK\$14.5 million.

EXPENSES

The Group recorded other operating expenses amounted to approximately HK\$28 million (2019: approximately HK\$20.5 million). The increase of the other operating expenses was mainly due to the increase of expected losses amounted approximately HK\$13.1 million and the impairment of goodwill amounted approximately HK\$4.5 million.

During the year under review, the employee benefits expenses decreased from approximately HK\$89.1 million for the year ended 31 December 2019 to approximately HK\$76.9 million for the year ended 31 December 2020. The decrease of employee benefit expenses was mainly due to the increase of voluntary resignation of contact centre staffs.

The Group's depreciation and amortization expenses increased from approximately HK\$11.3 million for the year ended 31 December 2019 to approximately HK\$12 million for the year ended 31 December 2020.

(LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

The Group recorded a loss attributable to owners of the Company amounted approximately HK\$5.1 million for the year ended 31 December 2020 as compared with the profit attributable to owners of the Company amounted approximately HK\$7.6 million for the year ended 31 December 2019.

PLEDGE OF ASSETS

As at 31 December 2020, the Group had pledged its bank deposits of approximately HK\$9.1 million (2019: approximately HK\$9.1 million) to secure its banking facilities.

FOREIGN EXCHANGE EXPOSURE

Substantially all the revenue-generating operations of the Group were transacted in Hong Kong dollars during the year 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.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

The Group had no significant contingent liabilities as at 31 December 2020 (2019: Nil). As at 31 December 2020, there was no capital commitments outstanding but not provided for in the financial statements (2019: Nil).

SIGNIFICANT INVESTMENTS HELD, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, AND FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save for those disclosed in this announcement, there were no significant investments held as at 31 December 2020, nor were there material acquisitions and disposals of subsidiaries during the year. There is no plan for material investments or capital assets as at 31 December 2020.

PURCHASE, SALES 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 year ended 31 December 2020.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company comprising Mr. Wong Kam Tai (Chairman), Mr. Wong Sik Kei and Mr. Cheung Kong Ting, all are independent non-executive Directors, had reviewed the audited consolidated results of the Group for the year ended 31 December 2020.

SCOPE OF WORK OF HLB HODGSON IMPEY CHENG LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Group's auditors, HLB Hodgson Impey Cheng Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLB Hodgson Impey Cheng Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by HLB Hodgson Impey Cheng Limited on this preliminary announcement.

CORPORATE GOVERNANCE

For the year ended 31 December 2020, 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 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 judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. During the year under review, Mr. Tang Shing Bor, the Chairman and a non-executive Director, was absent from two board meetings due to other important engagements in the relevant times and was not entitled to attend another one board meeting for considering transactions in which he has material interest.

The Company continues to enhance its corporate governance practices appropriate to the conduct and growth of its business, and to review and improve such practices from time to time to ensure that business activities and decision making processes are regulated in a proper and prudent manner in accordance with international best practices.

The Directors acknowledged their responsibility for preparing the annual financial statements for the year ended 31 December 2020 and each Director participated in the Company’s operation pursuant to their established terms of reference and contributed to the success of the Company.

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 with the Directors, all Directors confirmed that they had complied with the required standard of dealings concerning securities transactions by the Directors throughout the year ended 31 December 2020.

APPRECIATION

The Board would like to take this opportunity to express their thanks and gratitude to the Group's management and staff who dedicated their endless efforts and devoted services, and to our shareholders, suppliers, clients and bankers for their continuous support.

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

Hong Kong, 19 March 2021

As at the date of this announcement, the executive Directors are Mr. Tang Yiu Sing and Mr. Yeung Ka Wing; the non-executive Director is Mr. Tang Shing Bor and the independent non-executive Directors are Mr. Wong Sik Kei, Mr. Cheung Kong Ting and Mr. Wong Kam Tai.

This announcement 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.