**ETS GROUP LIMITED**
**易通訊集團有限公司**
*(Incorporated in the Cayman Islands with limited liability)*
**(Stock Code: 8031)**

# SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2022

Reference is made to the annual report (the "**2022 Annual Report**") of ETS Group Limited (the "**Company**", and together with its subsidiaries, the "**Group**") for the year ended 31 December 2022 ("**FY2022**"). Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the 2022 Annual Report.

In addition to the information provided in the 2022 Annual Report, the board (the "**Board**") of directors (the "**Director(s)**") of the Company would like to provide additional information in relation to the Group's money lending business (the "**Money Lending Business**").

## MONEY LENDING BUSINESS

### Business model

The Group conducts the Money Lending Business through its indirect wholly-owned subsidiary, Gear Credit Limited ("**GCL**"), which holds a money lender's license in Hong Kong under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). The Group offers both secured and unsecured loans, which can be classified as (i) small and medium enterprise loans (the "**SME Loans**"); (ii) mortgage loans (the "**Mortgage Loans**"); and (iii) personal loans (the "**Personal Loans**"), to individual and corporate customers. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at 31 December 2022, all of the individual and corporate customers of the Money Lending Business are third parties independent of and not connected with the Group. The customers of the Group are mainly sourced from sales referral agents, referral of the existing customers and the network of the Group's management and staff.

**Risk management policies**

The management of the Group adopted the following credit risk management policies for the Money Lending Business.

***Loan application and approval***

Before approving and granting new loans, the credit committee (the "**Credit Committee**") of GCL will perform prudent and complete internal credit assessments to assess the potential borrower's credit quality and to determine the credit limit, proposed loan size and interest rate to be charged. The internal credit assessment encompasses detailed assessment on, among other things, the credit history and financial background of the borrower and/or the guarantor (if any), purpose of the borrowing, as well as the value and nature of the security and/or collateral to be pledged.

The credit administration department of GCL would also perform public search towards the borrower and/or guarantor (if any) to ensure compliance with the relevant requirements and regulations of anti-money laundering and counter-terrorist financing.

***Loans monitoring***

After granting the loan, the Group will re-evaluate the value of the security and/or collateral(s) pledged from time to time and keep track of the customers' repayment records and loan portfolio on an on-going basis. If a loan is supported by a guarantee, an annual review of the financial condition and capacity of the guarantor to fulfil his/her/its obligation under the terms of guarantee would be conducted. The relationship manager of GCL will also conduct an annual review on the recoverability of the loans by obtaining updated information in relation to the borrower, guarantor(s) and/or the collateral(s) (if applicable), such as company search from the Company Registry, land search from the Land Registry, credit search from TU, civil litigation search from agent, and valuation of assets from surveyors, collection of the updated information from the borrowers and/or guarantors including but not limited to bank statements, tax returns or income proof, and financial statements of companies.

Subject to the approval of the Credit Committee, new terms may be imposed on the borrower or existing terms of the loan may be altered, for example, the demand of additional security, to minimise the credit risks.

*Overdue control*

The Group has in place a set of established recovery procedure for recovering outstanding debts, details of which are set out as follows:

| Timetable | Action(s) |
|---|---|
| On the due date or maturity date | The credit administration department will check the bank accounts after each day end. If no payment is received from the debtor, it shall inform relevant relationship manager for the late payment of the overdue sum. |
| Overdue balance not settled within 14 days after the due date or maturity date | First reminder will be sent 7 days after the relevant sum become due, and second reminder will then be issued to borrowers 7 days after the first reminder. The relationship manager will also call the debtors to arrange inspection of the residence or registered office of the debtor, if necessary. |
| Overdue balance not settled for over 30 days | Demand letter and notice of further actions will be issued to the debtor and/or his/her/its guarantor (if any) to demand repayment immediately. The relationship manager will also discuss with the debtor in respect of the possible loan restructuring, if appropriate. |
| Overdue balance not settled for over 90 days | The Group will commence full legal proceedings and take all necessary legal actions against the debtor to recover the outstanding debts. |

**Loan portfolios**

As at 31 December 2022, there were 6 customers under the Money Lending Business, comprising of 2 corporate customers and 4 individual customers. The breakdown of the loans is as follows:

| Types of loans | Number of loans |
|---|---|
| SME Loans | 4 |
| Mortgage Loans | – |
| Personal Loans | 2 |
| | 6 |

| Outstanding balances of loans | Number of loans |
|---|---|
| Less than HK$1,000,000 | 1 |
| HK$1,000,001–HK$2,000,000 | – |
| Above HK$2,000,000 | 5 |
| | 6 |

As disclosed in the 2022 Annual Report, the Group's loan and interest receivables (the "**Loan Receivables**"), which arise from the Money Lending Business, are denominated in HK$, and are mainly secured by properties located in Hong Kong, personal guarantees and/or receivables. Set out below is a breakdown of the Loan Receivables by nature of security:

| Type of security | Approximate % of the Loan Receivables |
|---|---|
| Property located in Hong Kong | 56.4 |
| Personal guarantee | 38.2 |
| Receivables | 5.4 |
| | 100.0 |

All the Loan Receivables were entered into contractually with maturity within one (1) year and carry interests at fixed effective rate which ranged from 12% to 20% per annum. As at 31 December 2022, the Loan Receivables due from the largest customer and the five largest customers constituted approximately 22% and 95% of the Group's overall loan portfolio respectively.

**Aging analysis**

The following table demonstrates the aging of the Loan Receivables for FY2022:

| | Within 1 year | Over 1 year to up to 2 years | Over 2 years to up to 3.5 years |
|---|---|---|---|
| Approximate % of the Loan Receivables | 39% | 19% | 42% |

As shown in the table above, approximately 61% of the Loan Receivables are aged more than 1 year, which represent the loans that have been extended and/or renewed upon the expiry of the initial maturity of within one (1) year.

**Impairment provisions**

The Group performs impairment assessment under expected credit loss ("**ECL**") model on the Loan Receivables in compliance with the Hong Kong Financial Reporting Standard 9 "Financial Instrument" ("**HKFRS 9**"). The amount of ECL is updated at each reporting date to reflect changes in credit risk of each loan since initial recognition. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the borrowers, general economic conditions and an assessment of both the current conditions as at the reporting date as well as the forecast of future conditions.

In assessing whether the credit risk of each loan has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, for example, a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor; and

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

***Valuation of the ECL of the Loan Receivables***

Norton Appraisals Holdings Limited (the "**Norton Appraisals**"), an independent valuer was engaged for the valuation of the ECL of the Loan Receivables as at 31 December 2022. Norton Appraisals adopted probability-weighted loss default model, which is commonly used in measuring ECL of receivables, for the measurement of the ECL of the Loan Receivables. Several factors were taken into account in assessing the ECL including (i) probability of default ("**PD**"); (ii) loss given default ("**LGD**"); (iii) discount factor ("**DF**"). The formula and value of inputs of the valuation as at 31 December 2022 are set out as follows:

**ECL = PD x LGD x DF**

where,

| | | |
|---|---|---|
| PD | = | 3.11%–100% |
| LGD | = | 58.2%–100% |
| DF | = | 0%–12% |

The key assumptions adopted in the valuation model are as follows:

- Expected loss rates absorbed the change in future economic conditions.
- Expected loss rates are able to reflect different repayment scenarios of the borrowers.
- There are no material changes on the historical loss pattern across the borrowers and therefore all of the loan receivables can be measured into the same portfolios.

The management of the Group estimated the ECL of the Loan Receivables under general approach in HKFRS 9, according to the accounting policy of the Group.

With the support of the valuation results, an impairment (the "**Impairment**") on the Loan Receivables of approximately HK$5.4 million was recognised for FY2022.

As at the date of this announcement, there are no changes in valuation method as referred to above following its adoption. During FY2022, the collateral effect of the 2019 coronavirus pandemic ("**COVID-19**") continued to subsist and the Company's debtors were affected by the overall downturn of the economy. The majority of the Group's customers struggled to maintain healthy cashflow, resulting in delay in repayment of the loans. Although the general COVID-19 precautionary measures appear to have eased up worldwide in 2022, the economy has yet to show signs of recovery. Considering, among other things, (i) the deteriorated repayment ability of the customers; (ii) the overall negative market sentiment; and (iii) the business and financial prospect of the industries in which the customers operated or engaged, the management of the Group has recognised the Impairment which represented the principal loan amount and interests payables the recoverability of which is undermined due to the reasons above. The Group will continue to closely monitor the repayment of the loans, and may consider taking further actions in accordance with the Group's loans recovery policies, if necessary.

## GENERAL

The information contained in this supplemental announcement does not affect any other information contained in the 2022 Annual Report and save as disclosed above, all other information in the 2022 Annual Report remains unchanged.

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

Hong Kong, 29 September 2023

*As at the date of this announcement, the executive Directors are Mr. Tang Yiu Sing and Mr. Yeung Ka Wing; and the independent non-executive Directors are Mr. Cheung Kong Ting, Mr. Wong Kam Tai and Ms. Kwong Yuk Ying.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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.*

*This announcement will remain on the "Latest Listed Company Information" page of the website of the Stock Exchange at www.hkexnews.hk for at least 7 days from the date of its publication and on the website of the Company at www.etsgroup.com.hk.*