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UTS MARKETING SOLUTIONS HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 6113)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of directors (the “**Board**”) of UTS Marketing Solutions Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively refer to as the “**Group**”) for the six months ended 30 June 2020, together with the comparative figures for the previous corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Note	Six months ended 30 June	
		2020 RM'000 (unaudited)	2019 RM'000 (unaudited)
Revenue	5	38,351	39,037
Other income		1,905	1,576
Other gains and losses		452	389
Staff costs		(27,815)	(27,982)
Depreciation		(1,420)	(1,106)
Other operating expenses	6	(4,058)	(5,187)
Profit from operations		7,415	6,727
Finance costs		(258)	(789)
Profit before tax		7,157	5,938
Income tax expense	7	(900)	–
Profit and total comprehensive income for the period	8	6,257	5,938
		RM	RM
Earnings per share	10		
Basic		1.56 cents	1.48 cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

	<i>Note</i>	30 June 2020 <i>RM'000</i> (unaudited)	31 December 2019 <i>RM'000</i> (audited)
Non-current assets			
Property, plant and equipment	11	2,551	2,737
Right-of-use assets	12	3,363	3,203
Subleasing receivables		217	24
		6,131	5,964
Current assets			
Trade receivables	13	24,784	19,042
Subleasing receivables		325	239
Other receivables		1,191	1,588
Financial assets at amortised cost	14	26,280	26,689
Tax recoverable		45	32
Pledged bank deposits		3,678	3,428
Bank and cash balances		27,639	26,795
		83,942	77,813
Current liabilities			
Accruals and other payables		4,333	5,565
Bank overdrafts		1,168	387
Lease liabilities		2,367	2,086
		7,868	8,038
Net current assets		76,074	69,775
Total assets less current liabilities		82,205	75,739
Non-current liabilities			
Lease liabilities		2,054	1,845
NET ASSETS		80,151	73,894
Capital and reserves			
Share capital	15	2,199	2,199
Reserves		77,952	71,695
TOTAL EQUITY		80,151	73,894

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands on 23 August 2016. The address of its registered office is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The address of its principal place of business registered in Hong Kong is at Unit 1802, 18/F, Ruttonjee House, Ruttonjee Centre, 11 Duddell Street, Central, Hong Kong. The headquarters and principal place of business of the Group is at Tingkat 10, Bangunan KWSP, No. 3 Changkat Raja Chulan, 50200 Kuala Lumpur, Malaysia.

The Company is an investment holding company. The Company and its subsidiaries (collectively the “**Group**”) are principally engaged in the provision of outbound telemarketing services and contact centre facilities for promotion of financial products and its related activities issued by authorised financial institutions, card companies or organisation worldwide.

2. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed consolidated financial statements should be read in conjunction with the 2019 annual consolidated financial statements. The accounting policies (including the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty) and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019 except for the adoption of new and revised Hong Kong Financial Reporting Standards as described in Note 3.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standards (“**HKFRS**”); Hong Kong Accounting Standards (“**HKAS**”); and Interpretations. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The accounting policies applied in these financial statements are the same as those applied in the Group’s consolidated financial statements as at and for the year ended 31 December 2019. Except for the early adoption of amendment to HKFRS 16, a number of new or amended standards are effective from 1 January 2020 but they do not have a material effect on the Group’s consolidated financial statements.

Amendment to HKFRS 16 “Covid-19-Related Rent Concessions”

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

The Group has elected to early adopt the amendment and applies the practical expedient to all qualifying COVID-19 related rent concessions granted to the Group during the period. Consequently, rent concessions received have been accounted for as negative variable lease payments recognised in profit or loss in the period in which the event or condition that triggers those payments occurred. Accordingly, the Group credited approximately RM45,000 to profit or loss for the rent concessions received by the Group during the period. There is no impact on the opening balance of equity as at 1 January 2020.

4. FAIR VALUE MEASUREMENTS

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values.

5. REVENUE AND SEGMENT INFORMATION

Operating segment information

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

As the Group is principally engaged in the provision of telemarketing services in Malaysia, which are subject to similar business risk, and resources are allocated based on what is beneficial to the Group in enhancing the value of the Group as a whole, the Group's chief operating decision maker considers the performance assessment of the Group should be based on the profit before tax of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirements of Hong Kong Financial Reporting Standard 8 "Operating Segments".

Geographical information

All non-current assets and the Group's revenue from external customers during the period are located in Malaysia.

6. OTHER OPERATING EXPENSES

	Six months ended 30 June	
	2020 RM'000 (unaudited)	2019 RM'000 (unaudited)
Auditor's remuneration	182	165
Campaign costs	632	668
Legal and professional fees	220	275
Training expenses	294	516
Repair and maintenance expenses	285	190
Telephone and internet expenses	716	704
Utilities expenses	238	297
Others	1,491	2,372
	<u>4,058</u>	<u>5,187</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020 RM'000 (unaudited)	2019 RM'000 (unaudited)
Current tax — Malaysian Income Tax	<u>900</u>	<u>—</u>

Malaysian income tax is calculated at the statutory tax rates of 24% on the estimated taxable profits for the six months ended 30 June 2020 and 2019.

No provision of profit tax in Cayman Islands, British Virgin Islands and Hong Kong is required as the Group has no assessable profit arising in or derived from these jurisdictions for the six months ended 30 June 2020 and 2019.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Tele Response Sdn. Bhd. (“**Tele Response**”), a subsidiary of the Group obtained the pioneer certificate from the Malaysian Investment Development Authority in 2011 and was entitled to tax exemption of its statutory income for a period of 5 years from 10 February 2010 to 9 February 2015. Such tax exemption was renewed in 2015 and accordingly Tele Response was entitled to tax exemption of its statutory income for a period of 5 years from 10 February 2015 to 9 February 2020.

8. PROFIT FOR THE PERIOD

The Group’s profit for the period is stated after charging the following:

	Six months ended 30 June	
	2020	2019
	RM’000	RM’000
	(unaudited)	(unaudited)
Loss on disposals of property, plant and equipment	1	32
Impairment loss on financial assets at amortised cost	528	–
Impairment loss on trade receivables	239	–
Operating lease charges in respect of		
— Hire of plant and equipment	–	62
— Land and buildings	–	780
	–	842
Staff costs (including directors’ emoluments)		
— Salaries, bonuses and allowances	24,538	24,599
— Retirement benefit scheme contributions	2,911	3,038
— Social insurance contributions	366	345
	27,815	27,982

Due to the outbreak of COVID-19 pandemic since early 2020, there were increases in credit risk in respect of the collection of loan advances and trade receivables upon its due dates. As a result, impairment losses on financial assets at amortised cost and trade receivables of approximately RM528,000 (30 June 2019: Nil) and RM239,000 (30 June 2019: Nil) were made during the period respectively.

9. DIVIDEND

The Board has resolved to declare interim dividend of HK\$0.045 per share (equivalent to RM0.0243 per share) totalling HK\$18,000,000 (equivalent to approximately RM9,720,000) for the six months ended 30 June 2020 (30 June 2019: Nil).

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of the basic earnings per share is based on the profit attributable to owners of the Company for the six months ended 30 June 2020 of approximately RM6,257,000 (30 June 2019: approximately RM5,938,000) and the weighted average number of 400,000,000 (30 June 2019: 400,000,000) ordinary shares in issue during the period.

Diluted earnings per share

No diluted earnings per share are presented as there are no dilutive potential ordinary shares during the six months ended 30 June 2020 and 2019.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment with a cost of approximately RM192,000 (30 June 2019: approximately RM794,000). Property, plant and equipment with a net book value of approximately RM1,000 (30 June 2019: approximately RM35,000) were disposed of during the six months ended 30 June 2020 resulting a loss on disposal of approximately RM1,000 (30 June 2019: approximately RM32,000).

12. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2020, the Group entered into certain new lease agreements for use of office premises for 3 years. The Group makes fixed payments during the contract period. On lease commencement, the Group recognised approximately RM1,204,000 (30 June 2019: approximately RM2,384,000) of right-of-use asset and lease liability.

13. TRADE RECEIVABLES

The general credit terms of trade receivables is 30 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by directors.

The aging analysis of trade receivables as at the balance sheet date, based on the date of invoice, and net of allowance, is as follows:

	30 June 2020 RM'000 (unaudited)	31 December 2019 RM'000 (audited)
0 to 30 days	8,162	7,556
31 to 60 days	6,921	6,758
61 to 90 days	2,727	2,608
91 to 120 days	3,434	680
121 to 180 days	2,376	1,148
Over 180 days	1,164	292
	24,784	19,042

14. FINANCIAL ASSETS AT AMORTISED COST

	30 June 2020 RM'000 (unaudited)	31 December 2019 RM'000 (audited)
Loan receivables	26,021	25,885
Interest receivables	1,294	1,311
	27,315	27,196
Less: Impairment loss	(1,035)	(507)
	26,280	26,689

The amounts represent loan advanced to independent third parties with aggregated principal values of RM26,000,000.

On 31 January 2019, UTS Marketing Solutions Sdn. Bhd. (“**UTSM**”), a wholly-owned subsidiary of the Company, entered into a shares sale agreement with Exsim Development Sdn. Bhd. (“**Exsim**”) and Mightyprop Sdn. Bhd. (“**Mightyprop**”) to acquire 2% of Mightyprop issued ordinary shares from Exsim with a purchase consideration of RM2. In addition, UTSM agreed to provide an advance of RM12,000,000 to Mightyprop. The advance is unsecured, bearing interest rate of 10% per annum and repayable on or before May 2020. In July 2019, an agreement was entered by UTSM with Exsim and Mightyprop in which the maturity date of the loan was extended to June 2020 and the interest rate remains unchanged. In July 2020, the repayment date of the loan was further extended one year to June 2021 with no change in interest rate.

On 23 April 2019, UTSM entered into a shares subscription agreement with 2 individuals, Performance Consortium Sdn. Bhd. (collectively referred as “**Arcadia’s Shareholders**”) and Arcadia Hospitality Sdn. Bhd. (“**Arcadia**”). Pursuant to the agreement, UTSM agreed to subscribe equivalent to 10% of the enlarged issued share capital of Arcadia with a purchase consideration of RM120,000 from Arcadia’s Shareholders. In addition, UTSM agreed to provide an advance of RM14,000,000 to Arcadia. The advance is unsecured, bearing interest rate of 10% per annum and repayable on or before July 2020. In July 2020, the repayment date of the loan was extended to December 2020 and interest rate remains unchanged. The share acquisition has not yet been completed as at the date of issuance of this interim results announcement.

Further details of the above transaction are set out in the Company’s announcement dated 31 January 2019, 23 April 2019, 8 July 2019, 8 July 2020 and 10 July 2020 respectively.

The Group holds the loan receivables to collect contractual cash flows and its contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amounts outstanding. The Group applies expected credit loss model to measure the impairment of financial assets at amortised cost. Impairment allowance of approximately RM528,000 was recognised for the six months ended 30 June 2020 (30 June 2019: Nil).

15. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 31 December 2019, 1 January 2020 and 30 June 2020	10,000,000,000	100,000
	<u>10,000,000,000</u>	<u>100,000</u>
	Number of shares	Equivalent to amount RM'000
	Amount HK\$'000	
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 31 December 2019, 1 January 2020 (audited) and 30 June 2020 (unaudited)	400,000,000	2,199
	<u>400,000,000</u>	<u>2,199</u>

16. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	30 June 2020 RM'000 (unaudited)	30 June 2019 RM'000 (unaudited)
Short term employee benefits	3,239	3,208
Retirement benefit scheme contributions	419	679
Social insurance contributions	8	7
	<u>3,666</u>	<u>3,894</u>
Total compensation paid to key management personnel	<u>3,666</u>	<u>3,894</u>

17. SHARE-BASED PAYMENT TRANSACTIONS

The Group conditionally adopted a share option scheme on 14 June 2017 (“**Share Option Scheme**”). The purpose of Share Option Scheme is to provide any directors and full-time or part-time employees, executive, consultants or any members of the Group who have contributed or will contribute to the Group (“**Eligible Participants**”) with the opportunity to acquire proprietary interests in the Company and to motivate Eligible Participants to optimise their performance efficiency and to maintain business relationship with the Eligible Participants for the benefits of the Group.

Pursuant to the Share Option Scheme, the directors of the Company may invite Eligible Participants to take up options at a price determined by the board of directors provided that it shall be at least the highest of (a) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant; and (b) a price being the average of the closing prices of the shares of the Company as stated in the Stock Exchange’s daily quotations sheets for the 5 business days immediately preceding the date of grant.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 10% of the total number of shares in issue unless the Company obtains a fresh approval from the shareholders to refresh the limit.

The maximum entitlement for any one Eligible Participant is that the total number of the shares issued and to be issued upon exercise of the options granted under the Share Option Scheme to each Eligible Participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue unless otherwise approved by the shareholders at a general meeting of the Company.

The option may be exercised in accordance with the terms of the Share Option Scheme at any time during the option period which would be determined and notified by the board of directors to the grantee at the time of making an offer.

No share options have been granted by the Group up to the date of issuance of this interim results announcement.

18. CAPITAL COMMITMENTS

Capital commitments contracted for at the end of the reporting period but not yet incurred are as follows:

	30 June 2020 RM'000 (unaudited)	31 December 2019 RM'000 (audited)
Capital commitments on potential equity investment	<u>120</u>	<u>120</u>

19. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 30 June 2020 (31 December 2019: Nil).

20. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the precautionary measures imposed by the Government of Malaysia to contain the spread of virus have adversely affected the economic activities in Malaysia and the operations of the Group. The Group suspended its telemarketing activities in mid-March due to the mandatory government quarantine measures and resumed its business in early May. As such, the financial position and performance of the Group were affected in certain aspects, including reduction in revenue and slow collection of trade receivables and loan advances in the relevant notes as disclosed in this interim results announcement. Given the extent and duration of COVID-19 remain uncertain, the Group's estimates and assumptions may evolve as conditions change and the 2020 full year actual results could differ from those estimates. The Group will remain vigilant and closely monitor the development of COVID-19 situation and will evaluate its impact on the Group's financial position and operating results accordingly.

21. EVENTS AFTER REPORTING PERIOD

- (a) The outbreak of COVID-19 has seriously affected the economy, property market and business operations in Malaysia. Following the announcements by the Government of Malaysia on the Movement Control Order which has taken place since 18 March 2020, the Conditional Movement Control Order since 4 May 2020 and the Recovery Movement Control Order since 10 June 2020, the business of Exsim has been seriously affected and it is difficult for Exsim to repay the Advance on or before the originally contemplated repayment date, i.e. 30 June 2020.

As such, UTSM, Exsim and Mightyprop entered into an extension agreement on 8 July 2020 to further extend the repayment date of loan advance to 30 June 2021 with interest rate remains unchanged.

In addition, the Arcadia's Shareholders requested for further extension of condition precedent period by letter dated 13 July 2020. UTSM agreed to further extend the condition precedent period and loan advance repayment date until 31 December 2020, with interest rate remains unchanged.

- (b) On 24 July 2020, UTSM entered into acquisition agreements with Lim Legacy Development Sdn. Bhd. to acquire 18 properties located in Kuala Lumpur, Malaysia at a consideration of approximately RM17,935,000. The construction work is expected to be completed by July 2024. Further details of this acquisition transaction are set out in the Company's announcement dated 24 July 2020 and 28 July 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the provision of outbound telemarketing services and contact centre facilities for promotion of financial products and its related activities issued by authorised financial institutions, card companies or organisation worldwide. As at 30 June 2020, the Group was operating seven contact centers situated within the central business district of Kuala Lumpur, Malaysia with approximately 1,346 employees. The Group's net profit for the six months ended 30 June 2020 amounted to approximately RM6.26 million, representing an increase of approximately RM0.32 million as compared to approximately RM5.94 million for the corresponding six months ended 30 June 2019. The increase in net profit for the six months ended 30 June 2020 was primarily attributable to the decrease in other operating expenses by approximately RM1.13 million but offset by higher income tax expenses of RM0.90 million.

FINANCIAL REVIEW

Revenue

	Six months ended 30 June	
	2020	2019
	RM'000	RM'000
Insurance	30,406	33,952
Banking and financial	2,019	2,306
Others	5,926	2,779
	<u>38,351</u>	<u>39,037</u>

For the six months ended 30 June 2020, the Group recorded a revenue of approximately RM38.35 million, representing a decrease of approximately 1.77% as compared with approximately RM39.04 million for the corresponding period in 2019. Such a decrease was attributable to the decrease in the number of workstations ordered by our clients, particularly from insurance sector but was offset with higher number of orders from charitable organisation.

The overall average number of workstation orders per month increased from approximately 1,056 for the six months ended 30 June 2019 to approximately 1,152 for the six months ended 30 June 2020. The revenue generated per workstation per month decreased from RM6,161 for the six months ended 30 June 2019 to RM5,548 for the six months ended 30 June 2020.

The lower revenue generated per workstation per month of RM613 was mainly due to the rebate and discount on outbound telemarketing services requested by most of the clients during the mandatory government lockdown period from mid-March 2020 to end of April 2020.

Other income

For the six months ended 30 June 2020, other income increased by approximately RM0.33 million as compared to the amount of approximately RM1.58 million for the corresponding period in prior year, mainly due to the imputed and accrued interest income generated from the loan advances to two independent third parties with aggregated principal amount of RM26 million. Both loan advances bear an interest rate of 10% per annum.

Other gains and losses

For the six months ended 30 June 2020, other gains and losses increased by approximately RM63,000 as compared to the corresponding period in prior year, from gains of approximately RM0.39 million to gains of approximately RM0.45 million.

The slight increase was mainly due to higher unrealised foreign exchange gain of RM0.92 million but contracted with impairment losses on financial assets at amortised cost and trade receivables of approximately RM0.53 million and RM0.24 million respectively.

Staff costs

For the six months ended 30 June 2020, staff costs decreased slightly by approximately RM0.16 million or 0.57%, from approximately RM27.98 million for the corresponding period in prior year to approximately RM27.82 million.

Average number of staff increased from a monthly average of 1,396 for the six months ended 30 June 2019 to a monthly average of 1,532 for the six months ended 30 June 2020. Despite the increase in monthly average headcounts by approximately 9.74%, the Group reported an overall slight decrease in staff costs by approximately RM0.16 million mainly due to an implementation of short term salary reduction within the range of 20% to 50% according to respective job grades during the Movement Control Order in Malaysia.

Depreciation

For the six months ended 30 June 2020, depreciation charges increased by approximately RM0.31 million or 27.93%, from approximately RM1.11 million for the corresponding period in prior year to approximately RM1.42 million. The increase in the depreciation charges was mainly attributable to the new lease agreements for use of office premises entered into by the Group during the six months ended 30 June 2020.

Other operating expenses

For the six months ended 30 June 2020, other operating expenses decreased by approximately RM1.13 million or 21.77%, from approximately RM5.19 million to approximately RM4.06 million. The decrease was primarily due to the overall decrease in other general operating expenses, including donation, entertainment and travelling expenses.

Finance costs

For the six months ended 30 June 2020, finance costs decreased by approximately RM0.53 million from approximately RM0.79 million for the corresponding period in prior year to approximately RM0.26 million. The decrease was primarily due to the lower imputed interest expense upon inception on the loan advances to independent third parties during the reporting period.

Income tax expense

The Group reported an income tax expense provision of RM0.90 million from the assessable profits arising during the six months ended 30 June 2020.

No income tax expense provision was required for the six months ended 30 June 2019 as the Group did not generate any assessable profits arising from the six months ended 30 June 2019. A subsidiary of the Group is entitled to tax exemption from its statutory income in Malaysia for a period of 5 years from 10 February 2015 to 9 February 2020.

Net profit and net profit margin

As a result of the above factors, the Group recorded a profit after tax of approximately RM6.26 million and RM5.94 million for the six months ended 30 June 2020 and 2019 respectively. Net profit margin was approximately 16.3% and 15.2% for the six months ended 30 June 2020 and 2019 respectively. The increase in net profit margin by 1.1% was mainly due to decrease in other operating expenses.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources

The Group generally meets its working capital requirements and capital expenditures on plant and equipment from its internally generated funds. For the six months ended 30 June 2020, the Group generated net cash inflow from operating activities of approximately RM0.06 million (30 June 2019: approximately RM2.00 million). The Group was able to repay its obligations when they became due. The Group did not experience any material difficulties in rolling over its banking facilities.

Banking facilities and lease liabilities

As at 30 June 2020, the Group has available and unutilised facilities from banks amounting to RM3.93 million. The carrying amount of the Group's facilities are denominated in Malaysian Ringgit. The Group's average effective interest rate for the banking facilities is 8.54% (31 December 2019: 8.75%). The Group's banking facilities are secured by the pledged bank deposits and the corporate guarantees provided by the Company.

As at 30 June 2020, the Group has an aggregate amount of current and non-current lease liabilities of approximately RM4.42 million (31 December 2019: approximately RM3.93 million), all denominated in Malaysian Ringgit. The average effective interest rate for the lease is 4.14% (31 December 2019: 4.34%). The carrying amount of approximately RM0.50 million (31 December 2019: approximately RM0.60 million) is secured by the lessor's retention of title to the leased assets.

PLEDGE OF ASSETS

As at 30 June 2020, the Group's banking facilities, which were all denominated in Malaysian Ringgit, were secured by (i) the pledged bank deposits of approximately RM3.68 million (31 December 2019: approximately RM3.43 million), and (ii) the corporate guarantees provided by the Company.

GEARING RATIO

The gearing ratio of the Group as at 30 June 2020 was 6.97% (31 December 2019: 5.84%) which is calculated based on the total debt divided by equity attributable to equity holders of the Company, and total debt represents bank overdrafts and lease liabilities. The Group has a strong liquidity position to meet its operational needs.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

The major factors which may affect the operations results and financial conditions of the Group include the following:

Ability to secure sufficient labour and control staff cost

Contact service industry is service-oriented and labour intensive business, any shortage in staff, or increase in staff costs may materially and adversely affect our business, results of operations, financial condition and prospects.

As at 30 June 2020, the Group had 1,346 employees. Total staff costs incurred by the Group for the six months ended 30 June 2020 were approximately RM27.82 million (30 June 2019: approximately RM27.98 million), representing 72.5% of the revenue of the Group for the six months ended 30 June 2020 (30 June 2019: 71.7%).

The Group is able to attract and retain sufficient number of competent staff, particularly our telemarketing sales representatives, by giving performance linked commission and incentive based on pre-determined sales target.

Appropriate corrective actions and re-training measures are taken to further improve the quality of the services provided by our telemarketing sales representatives.

Delay in settlement of bills from the top five clients

The majority of the Group's revenue is derived from a limited number of clients. The sales to the five largest clients accounted for approximately 72.0% of the total revenue for the six months ended 30 June 2020 (30 June 2019: 70.8%). All the five largest clients are insurance companies.

The Group may be subject to the risk of delay in payment by our clients. If the settlements by our clients are not made in full or in a timely manner, the cash position and financial conditions of the Group will be materially and adversely affected.

The Group will continue monitoring the trade receivables collection cycle in order to fully recover the outstanding amounts due from our clients. As at 30 June 2020, the trade receivables were approximately RM24.78 million. Subsequent to 30 June 2020 and up to the date of this announcement, approximately RM13.68 million or 54.7% of the outstanding balances of trade receivables as at 30 June 2020 have been settled.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

On 12 July 2017, the Company's shares were listed on the Main Board of the Stock Exchange. A total number of 100,000,000 shares were issued to the public at HK\$1.38 per share for a gross proceeds of HK\$138 million. The total net proceeds raised from the global offering of the Company were approximately HK\$109.7 million after the deduction of related listing expenses. The intended use of proceeds has been consistent with the disclosure in the prospectus of the Company dated 22 June 2017 (the "Prospectus"). Up to 30 June 2020, the respective use of the net proceeds is as follows:

Intended applications	Actual net proceeds received RM'000	Amount utilised as at 30 June 2020 RM'000	Amount unutilised as at 30 June 2020 RM'000
Expanding outbound contact service business	30,137	29,406	731
Setting up inbound contact centre	15,070	–	15,070
Upgrading and enhancing information technology system	9,041	1,454	7,587
Working capital	6,027	6,027	–
Total	60,275	36,887	23,388

The balance of the net proceeds is currently deposited in a licensed financial institution in Hong Kong.

The total unutilised net proceeds of approximately RM23.39 million will be applied consistent to that disclosed in the Prospectus. The Directors are not aware of any material changes to the intended usage of proceeds as at the date of this announcement.

The Board had prudently reviewed and considered the market condition before making any expenditures for the above intended usage mainly due to the following factors: (i) the Group is still in the infancy stage of evaluation for one of the potential clients on inbound contact centre and the incidental information technology equipment requirement, (ii) the Group is still evaluating for experienced consultant and inbound management team, (iii) increasing demand of more advanced e-commerce and work from home type of information technologies requirement as compared to conventional information technology, and (iv) increasing demand of operating spaces in order to promote best workplace social distancing practice.

The balance of the unutilised proceeds is expected to be utilised by the end of the year 2021. The intended time frame was envisaged on the best possible estimation and assumption of the market condition and development by the Group as at the date of this announcement. The outbreak of the Covid-19 pandemic are unprecedented and create uncertainty on the global and domestic economy. However, this opens up opportunity for outsourcing as risk management strategy for global and domestic clients as well.

CAPITAL COMMITMENTS

As at 30 June 2020, the Group's capital commitment contracted but not yet incurred is related to potential equity investment and amounted to RM0.12 million (31 December 2019: RM0.12 million).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2020.

ADVANCE TO ENTITIES

On 31 January 2019, UTS Marketing Solutions Sdn. Bhd. ("**UTSM**"), a wholly-owned subsidiary of the Company, entered into an agreement with Exsim Development Sdn. Bhd. ("**Exsim**") and Mightyprop Sdn. Bhd. ("**Mightyprop**") to acquire 2% of the entire issued capital of Mightyprop from Exsim with a purchase consideration at nominal value of RM2. In addition, UTSM agreed to provide an advance of RM12,000,000 to Mightyprop (the "**Advance**"). The Advance was unsecured, bearing interest rate of 10% per annum and repayable on or before May 2020. In July 2019, an agreement was entered by UTSM with Exsim and Mightyprop pursuant to which the proposed acquisition of 2% shareholding in Mightyprop will not be proceeded, the maturity date of the loan was extended to June 2020 and the interest rate remains unchanged.

On 8 July 2020, UTSM, Exsim and Mightyprop entered into the extension agreement, pursuant to which Exsim has undertaken to (i) repay the Advance on or before 30 June 2021 and (ii) pay the interest calculated at the rate of 10% per annum on a daily basis accrued from 4 February 2019 up to the date of repayment and payable on 7 January 2021 and 7 July 2021 and UTSM agreed to such arrangement.

On 23 April 2019, UTSM entered into a shares subscription agreement with 2 individuals, Performance Consortium Sdn. Bhd. (collectively referred as the “**Arcadia’s Shareholders**”) and Arcadia Hospitality Sdn. Bhd. (“**Arcadia**”). Pursuant to the agreement, UTSM agreed to subscribe for new shares equivalent to 10% of the enlarged issued share capital of Arcadia with a consideration of RM120,000 from Arcadia’s shareholders. In addition, UTSM agreed to provide an advance of RM14,000,000 to Arcadia. The advance was unsecured, bearing interest rate of 10% per annum and repayable on or before July 2020. The share subscription has not yet been completed as at the date of this announcement.

On 13 July 2020, the Arcadia’s Shareholders requested for further extension of long-stop date of the conditions precedent to complete the share subscription transaction and UTSM agreed to further extend the same to 31 December 2020. Incidental to the said extension, UTSM may refrain from demanding immediate repayment of the advance until 31 December 2020 with interest rate remains unchanged.

The financial advances to entities under Rule 13.20 of Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) and the details of the above transactions have been disclosed in the Company’s announcement dated 31 January 2019, 23 April 2019, 8 July 2019, 8 July 2020 and 10 July 2020 respectively.

As at 30 June 2020, the circumstances giving rise to the disclosure under Rule 13.13 of the Listing Rules exist and the advances by the Group to Mightyprop and Arcadia as at 30 June 2020 amounted to aggregated principal values of RM12 million and RM14 million with maturity dates on or before 30 June 2021 and 31 December 2020 respectively.

EMPLOYEES AND REMUNERATIONS POLICIES

As at 30 June 2020, the Group had 1,346 (30 June 2019: 1,360) employees. Total staff costs incurred by the Group for the six months ended 30 June 2020 were approximately RM27.82 million (30 June 2019: approximately RM27.98 million). The employees of the Group are remunerated according to their job scope and responsibilities. Performance linked commission and allowances on top of fixed salary are paid to the employees to motivate productivity and performance. The employees are also entitled to annual discretionary performance bonus, salary increment and promotion based on timely performance reviews and annual appraisals.

FOREIGN CURRENCY EXPOSURE

Except for and save as certain bank balances denominated in Hong Kong dollars, the Group has minimal exposure to foreign currency risk because most of the business transactions, assets and liabilities are principally denominated in the functional currencies of the Group, Malaysian Ringgit. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. Our management monitors the foreign currency exposure closely and will consider necessary hedging strategies should the need arise.

SIGNIFICANT INVESTMENT HELD

As at 30 June 2020, the Group did not hold any significant investments.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 30 June 2020, UTSM was in the course of negotiating with Lim Legacy Development Sdn. Bhd. for the proposed acquisition of 18 office suites, the agreements of which were subsequently entered into by the Group on 24 July 2020.

Save as disclosed above, there was no other specific plan for material investments or capital assets as at 30 June 2020.

MATERIAL ACQUISITIONS OR DISPOSALS

During the six months ended 30 June 2020, there was no material acquisition or disposal by the Group.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Save as disclosed in this announcement, there had been no material changes on the business operation of the Group since 31 December 2019.

OUTLOOK AND FUTURE PROSPECTS

The Group's strategic objective remains unchanged, i.e. to continue focusing on the business strategies according to the details as disclosed in the section headed "Business — Business Strategies" on pages 92 to 99 of the Prospectus.

The Group suspended its business operation from mid-March 2020 to end of April 2020 and only resumed its business in early May 2020 due to the mandatory Movement Control Order imposed by the Malaysia Government to contain the spread of the Covid-19 pandemic.

Upon resumption of business in early May 2020, the Group set up a new contact center to cater for workplace social distancing requirement.

The Group expects the overall outlook for the second half of 2020 to remain stable and resilient without material deviation from its existing outbound telemarketing workstations ordered from its existing clients.

In addition, the Group had also been constantly reviewing potential opportunities to increase its number of workstations ordered beyond its current customer base by either working with new database owners, new insurers or takaful operators in order to improve the Group's financial performance.

INTERIM DIVIDENDS

The Board has resolved to declare an interim dividend of HK\$0.045 per share for the six months ended 30 June 2020 (30 June 2019: nil), the same of which will be paid on or before Thursday, 15 October 2020 to those shareholders of the Company whose names appear in the Register of members of the Company at the close of business on Thursday, 10 September 2020 (the record date).

In order to be qualified for the interim dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 10 September 2020, which is also the record date for the distribution of interim dividend.

There will be no book closure period.

EVENTS AFTER THE REPORTING PERIOD

Save for the transactions and events disclosed below, there is no other material event subsequent to 30 June 2020 which requires adjustment to or disclosure in this announcement.

On 8 July 2020, UTSM, Exsim and Mightyprop entered into an extension agreement, pursuant to which Exsim has undertaken to (i) repay the Advance made by UTSM to Mightyprop on or before 30 June 2021 and (ii) pay the interest calculated at the rate of 10% per annum accrued from 4 February 2019 up to the date of repayment and payable on 7 January 2021 and 7 July 2021 and UTSM agreed to such arrangement. Please refer to the announcements of the Company dated 8 July 2020 and 10 July 2020 for further details.

On 13 July 2020, the Arcadia's Shareholders requested for further extension of long-stop date of the conditions precedent to complete the share subscription transaction and UTSM agreed to further extend the same to 31 December 2020. Incidental to the said extension, UTSM may refrain from demanding immediate repayment of the advance until 31 December 2020 with interest rate remain unchanged.

On 24 July 2020, UTSM entered into 18 acquisition agreements with Lim Legacy Development Sdn. Bhd. ("**Lim Legacy**") in relation to the acquisition of the 18 office suites with a provisional floor size of 27,806 square feet and storage areas of 200 square feet locating at Millerz Square @ Old Klang Road, Kuala Lumpur (the "**18 office suites**"), pursuant to which UTSM has agreed to purchase and Lim Legacy has agreed to sell the 18 office suites at the aggregate consideration of RM17,934,870 (equivalent to approximately HK\$32,910,490). Please refer to the announcements of the Company dated 24 July 2020 and 28 July 2020 for further details.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

COMPETING INTERESTS

The Directors are not aware of any business or interest of the Directors or the controlling shareholders of the Company nor any of their respective close associates that compete or might compete, either directly or indirectly, with the business of the Group and any other conflicts of interest which any such person had or might have with the Group during the six months ended 30 June 2020.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules as the code for dealings in securities transactions by the Directors. Specific enquiries have been made to all Directors and they have confirmed their compliance with the required standard set out in the Model Code throughout the six months ended 30 June 2020.

CORPORATE GOVERNANCE CODE

The Company is committed to maintaining good corporate governance standard and procedures with a view to enhance investors’ confidence and the Company’s accountability and transparency.

The Company has complied with the code provisions included in the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Listing Rules and there has been no deviation from the code provisions as set forth under the CG Code for the six months ended 30 June 2020, save and except code provision C2.5 of the CG Code. The Company does not have an internal audit function as the Board presently considers that the size, nature and complexity of the Group’s business does not require such function. The Board reviews and will continue to review the need to set up an independent internal audit function on an annual basis. At current stage, our finance team assumes the responsibility for conducting regular review of internal control procedures. Such an arrangement may be improved, but the Board is not concerned with the lack of segregation of duties by having assumed the current organisational structure, lines of responsibility and authority of the management team and the risks associated with the operations of the Group. The Board considers that the internal control and risk management system of the Group was effective during the six months ended 30 June 2020.

AUDIT COMMITTEE

The audit committee of the Company was established on 14 June 2017 with written terms of reference in compliance with the Listing Rules. The committee comprising three independent non-executive directors, namely Mr. Kow Chee Seng (chairman of the audit committee), Mr. Lee Shu Sum Sam and Mr. Chan Hoi Kuen Matthew.

The interim results for the six months ended 30 June 2020 have been reviewed by the audit committee, and no disagreement was raised by the audit committee in respect of the accounting treatment adopted by the Group. The unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2020 have also been reviewed by the Company's auditor, RSM Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The auditor's independent review report will be included in the Company's interim report for the six months ended 30 June 2020 to the Shareholders.

PUBLICATION OF FINANCIAL INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.unitedteleservice.com. The interim report of the Company for the six months ended 30 June 2020 will be despatched to the Shareholders of the Company and published on the aforesaid websites in due course.

By Order of the Board
UTS Marketing Solutions Holdings Limited
Ng Chee Wai
Chairman and Executive Director

Hong Kong, 28 August 2020

As at the date of this announcement, the executive Directors are Mr. Ng Chee Wai (Chairman), Mr. Lee Koon Yew (Chief Executive Officer) and Mr. Kwan Kah Yew; and the independent non-executive Directors are Mr. Lee Shu Sum Sam, Mr. Kow Chee Seng and Mr. Chan Hoi Kuen Matthew.