

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

The Board recognises the importance of good corporate governance in management and internal control procedures so as to achieve accountability. Therefore, the Company is committed to establish and maintain good corporate governance practices and procedures. The Company has adopted the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules and, in the opinion of the Board, the Company has complied with the CG Code for FY2020, save for the deviation from such code disclosed below.

Pursuant to code provision F.1.1 of the CG Code, the company secretary of the Company should be an employee of the Company and have day-to-day knowledge of the Company's affairs. Mr. Lau Siu Ki, being the Company's company secretary, is not an employee of the Company. The Company has assigned Ms. Wong Yuk Lam, the general manager, finance of the Group, as the contact person with Mr. Lau Siu Ki. Taking into account that Mr. Lau Siu Ki has substantial experience in the corporate secretarial field, providing professional corporate services to Hong Kong listed companies and it is more cost effective to engage an external service provider, the Directors consider that it is beneficial to appoint Mr. Lau Siu Ki as the company secretary of the Company.

The Directors believe that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture which would benefit the Company's stakeholders as a whole. The Directors will continue to review its corporate governance practices in order to enhance its corporate governance standard, to comply with the increasingly tightened regulatory requirements from time to time, and to meet the rising expectation of the shareholders and other stakeholders of the Company.

BOARD OF DIRECTORS

The Board is responsible for the overall management of the business of the Group and ensures that it is managed in the best interests of the Company and the shareholders as a whole while taking into account the interest of other stakeholders. The Board focuses on formulating the overall business strategy, reviewing and monitoring the business performance, internal controls and risk management of the Group, approving the financial statements and directing and supervising the management of the Company. Execution of operational matters and the powers thereof are delegated to the senior management by the Board. The Board is provided with the management update reports to give a balanced and understandable assessment of the performance, recent development and prospects of the Group regularly.

The Board delegates to the Corporate Governance Committee the responsibilities for the corporate governance functions under the code provision D.3.1 of the CG Code including professional development of the Directors and the senior management, and reviewing the Company's compliance with the CG Code and disclosure in this Corporate Governance Report. The Board has reviewed and discussed with the committee about the corporate governance policy of the Group and is satisfied with the effectiveness of the corporate governance policy.

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Composition of the Board

The composition of the Board as at the date of this annual report is set out as follows:

Executive Directors

Mr. Lau Wai Kwok (*Chief Executive Officer*)
Ms. Lau Tsz Yan
Mr. So Cheuk Wah Benton

Non-executive Directors

Mr. Wong Chu Kee Daniel (*Chairman*)
Mr. Chu Siu Sum Alex
Mr. Chan Kin Mei Stanley

Independent non-executive Directors

Mr. Au Yu Chiu Steven
Mr. Chung Fuk Wing Danny
Mr. Ko Man Fu
Mr. Mak Wai Sing

Biographical details of the Directors are set out in “Biographical Details of the Directors and Senior Management” on pages 12 to 16 of this annual report.

In compliance with Rules 5.05A, 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed four independent non-executive Directors representing not less than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. The Company has received from each independent non-executive Director an annual confirmation of his independence, and the Company considers such Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules.

With the various experience of the executive Directors, the non-executive Directors and the independent non-executive Directors, the Board considered that the Board has a balance of skills, experience and expertise for the business of the Group given the nature of the Group’s business.

To the best knowledge of the Board members, there are no other relationship (including financial, business, family, and other material/relevant relationships) among the members of the Board.

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TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of our executive Directors entered into a service contract with our Company effective 15 March 2019 and we signed letter of appointment with each of our non-executive Directors and independent non-executive Directors. The service contract with each of our executive Directors and the letter of appointment with each of our non-executive Directors and independent non-executive Directors is for a term of three years commencing 15 March 2019. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our memorandum articles of association and the applicable GEM Listing Rules.

According to our memorandum and articles of association, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation at every annual general meeting of the Company, provided that every Director shall be subject to re-election at annual general meeting at least once every three years. Any Director who is appointed by the Board to fill casual vacancy shall hold office until the first general meeting after his appointment, and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

As such, each of Ms. Lau Tsz Yan, Mr. So Cheuk Wah Benton, Mr. Au Yu Chiu Steven and Mr. Chung Fuk Wing Danny will retire from office as Director. All the retiring Directors, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company to be held on 16 September 2020 (the "2020 AGM") pursuant to article 84(1) of our memorandum and articles of association.

At the 2020 AGM, separate ordinary resolutions will be put forward to the shareholders of the Company in relation to the proposed re-election of Ms. Lau Tsz Yan and Mr. So Cheuk Wah Benton as executive Directors and Mr. Au Yu Chiu Steven and Mr. Chung Fuk Wing Danny as independent non-executive Directors, each for a term commencing from the date of the annual general meeting approving his/her appointment and ending at the conclusion of the annual general meeting of the Company to be held in 2023.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The role of chairman and chief executive officer is separate and is not performed by the same individual to avoid power being concentrated in any one individual. Mr. Wong Chu Kee Daniel is the Chairman of the Board and Mr. Lau Wai Kwok is the chief executive officer of the Company.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

Every Director keeps abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

The Directors are fully aware of the requirement under the code provision A.6.5 of the CG Code regarding continuous professional development. During the year ended 31 March 2020, all Directors received regular briefings and updates on the Group's business, operations, risk management, internal controls, corporate governance matters and relevant laws and regulations. They have also attended courses and seminars organised by external professional bodies and/or read materials on topics relevant to the duties and responsibilities of a director. All Directors have provided the Company with their respective training records pursuant to the CG Code.

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BOARD COMMITTEE

The Board has established four Board committees, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the GEM's website www.hkgem.com and the Company's website at www.expertsystems.com.hk. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

Audit Committee

The chairman of the Audit Committee is Mr. Au Yu Chiu Steven, an independent non-executive Director, and other members include Mr. Chan Kin Mei Stanley, a non-executive Director, and Mr. Chung Fuk Wing Danny, Mr. Ko Man Fu and Mr. Mak Wai Sing, each being an independent non-executive Director. The written terms of reference of the Audit Committee as suggested under the CG Code are posted on the GEM website and on the Company's website.

The main objective of the Audit Committee is to assist the Board in fulfilling its fiduciary responsibilities to the Company and each of its subsidiaries to act in the interest of the Shareholders as a whole.

Its primary duties include: (a) to consider and make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; (c) to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences; (d) to develop and implement policy on engaging an external auditor to supply non-audit services; (e) to make recommendations to the Board as it deems appropriate on any area within its remit where action or improvement is needed; and (f) to monitor integrity of the Company's financial statements and the annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgments contained in them.

The Company has complied with Rule 5.28 of the GEM Listing Rules in that the Audit Committee must comprise a minimum of three members and must be chaired by an independent non-executive Director who possesses appropriate professional qualifications or accounting or related financial management expertise as required in Rule 5.05(2) of the GEM Listing Rules.

The Group's financial statements for the year ended 31 March 2020 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the financial statements of the Group for the year ended 31 March 2020 comply with the applicable accounting standards and the GEM Listing Rules.

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Remuneration Committee

The chairman of the Remuneration Committee is Mr. Ko Man Fu, an independent non-executive Director, and other members include Mr. Au Yu Chiu Steven, Mr. Chung Fuk Wing Danny and Mr. Mak Wai Sing, each being an independent non-executive Director and Mr. Wong Chu Kee Daniel, our chairman and non-executive Director. The written terms of reference of the Remuneration Committee as suggested under the CG Code are posted on the GEM website and the Company's website.

The main functions of the Remuneration Committee include: (a) to make recommendations to the Board on the Company's policy and structure for all of the Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; (c) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; (d) to make recommendations to the Board on the remuneration of the non-executive Directors; (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; (f) to review and approve compensation payable to the executive Directors and the senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and (g) to review and approve compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure they are consistent with contractual terms and are otherwise reasonable and appropriate.

The remuneration of members of the senior management (excluding executive Directors) by band for the year ended 31 March 2020 is set out below:

Remuneration band	Number of individuals
Nil to HK\$1,000,000	3

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to the GEM Listing Rules are set out in Note 10 to the consolidated financial statements.

Nomination Committee

The chairman of the Nomination Committee is Mr. Chung Fuk Wing Danny, an independent non-executive Director, and other members include Mr. Au Yu Chiu Steven, Mr. Ko Man Fu and Mr. Mak Wai Sing, each being an independent non-executive Director, and Mr. Lau Wai Kwok, chief executive officer and executive Director. The written terms of reference of the Nomination Committee as suggested under the CG Code are posted on the GEM website and on the Company's website.

The main objectives of the Nomination Committee are to implement a formal, transparent and objective procedure for appointing the Board members and to provide clear disclosure of the Company's policies on the nomination and evaluation of the Board members in the Company's annual report. Its primary functions include: (a) based on the Board diversity policy to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (b) to identify individuals suitably qualified to become the Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (c) to assess the independence of the independent non-executive Directors; (d) to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive; (e) to review the Board diversity policy and nomination policy as and when necessary and monitor the implementation of the Board diversity policy.

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In evaluating and selecting any candidate for directorship, the following criteria should be considered:

- character and integrity;
- qualifications including professional qualifications, skills, knowledge and experience and diversity aspects under the Board diversity policy that are relevant to the Company's business and corporate strategy;
- any measurable objectives adopted for achieving diversity on the Board;
- requirement for the Board to have independent Directors in accordance with the GEM Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the GEM Listing Rules;
- any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company; and
- such other perspectives that are appropriate to the Company's business and succession plan that may be adopted by the Board and/or the Nomination Committee from time to time for nomination of Directors and succession planning.

The Nomination Committee, upon receipt of the proposal on appointment of new Director and the biographical information of the candidate, will evaluate such candidate based on the criteria as set out above to determine whether such candidate is qualified for directorship and made recommendation to the Board to appoint the candidate for directorship.

With respect to the re-election of Directors at the annual general meeting, the Nomination Committee will review the overall contribution and services to the Company of the retiring Directors and the level of participation and performance on the Board to determine whether the retiring Directors would continue to meet the criteria as set out above and made recommendation to the Board in respect of the proposed re-election of Directors at the general meeting. The relevant information of the retiring Directors together with the recommendation of the Board would then be disclosed in the circular accompanying the notice of the general meeting and sent to shareholders in accordance with the GEM Listing Rules and applicable laws and regulations.

As a good corporate governance practice, the independent non-executive Directors who also acts as Nomination Committee members will abstain from assessing his own independence and re-appointment.

Corporate Governance Committee

The chairman of the Corporate Governance Committee is Mr. Chan Kin Mei Stanley, a non-executive Director. Other members include Mr. Lau Wai Kwok, our chief executive officer and executive Director, Mr. Wong Chu Kee Daniel, our chairman and non-executive Director and Mr. Au Yu Chiu Steven, an independent non-executive Director. The written terms of reference of the Corporate Governance Committee are posted on the GEM website and on the Company's website.

The primary duties of the Corporate Governance Committee include: (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors; and (e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

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NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The Board meets regularly for considering, reviewing and/or approving matters relating to, among others, the financial and operating performance, as well as the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

The individual attendance record of the Board meeting, committee meetings and general meeting for the year ended 31 March 2020 is set out as follows.

	Number of Board Meetings attended/eligible to attend	Number of General Meeting attended/eligible to attend	Number of Audit Committee Meetings attended/eligible to attend	Number of Remuneration Committee Meetings attended/eligible to attend	Number of Nomination Committee Meetings attended/eligible to attend	Number of Corporate Governance Committee Meetings attended/eligible to attend
<i>Executive Directors:</i>						
Mr. Lau Wai Kwok (Chief Executive Officer)	5/5	1/1	N/A	N/A	1/1	1/1
Ms. Lau Tsz Yan	5/5	1/1	N/A	N/A	N/A	N/A
Mr. So Cheuk Wah Benton	5/5	1/1	N/A	N/A	N/A	N/A
<i>Non-executive Directors:</i>						
Mr. Wong Chu Kee Daniel (Chairman)	5/5	1/1	N/A	1/1	N/A	1/1
Mr. Chu Siu Sum Alex	5/5	1/1	N/A	N/A	N/A	N/A
Mr. Chan Kin Mei Stanley	5/5	1/1	5/5	N/A	N/A	1/1
<i>Independent non-executive Directors:</i>						
Mr. Au Yu Chiu Steven	5/5	1/1	5/5	1/1	1/1	1/1
Mr. Chung Fuk Wing Danny	5/5	1/1	5/5	1/1	1/1	N/A
Mr. Ko Man Fu	5/5	1/1	5/5	1/1	1/1	N/A
Mr. Mak Wai Sing	5/5	1/1	5/5	1/1	1/1	N/A

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 set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors for FY2020.

COMPANY SECRETARY

Mr. Lau Siu Ki of Hin Yan Consultants Limited, an external service provider, has been engaged by the Company as the company secretary. The primary contact person at the Company, whom Mr. Lau contacts for all matters relating to the duties and responsibilities of the company secretary, is Ms. Wong Yuk Lam, the general manager, finance of the Group.

During the year under review, Mr. Lau confirmed that he had taken no less than 15 hours of relevant professional training.

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INDEPENDENT AUDITOR'S REMUNERATION

BDO Limited is appointed as the external auditor of the Company. The fee paid or payable in respect of audit services for the year ended 31 March 2020 amounted to HK\$0.6 million.

The fee paid or payable to BDO Limited in respect of other permissible non-audit services amounted to HK\$0.1 million.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The statement of the external auditor about its reporting responsibilities on the consolidated financial statements is set out in the independent auditor's report on pages 38 to 41 of this annual report.

INTERNAL CONTROL AND RISK MANAGEMENT

It is the responsibility of the Board to ensure that the Group maintains sound and effective internal control systems to safeguard the shareholders' investments and its assets at all times. During the year ended 31 March 2020, the Company appointed an independent internal control consultant to undertake a review of the adequacy and effectiveness of its internal control systems. The Group has fully implemented all the internal control enhanced measures recommended by the said consultant.

The management has confirmed to the Board and the Audit Committee that the enhanced internal control measures adopted by the Group are adequate and effective in assisting the Group to enhance its internal control environment and corporate governance.

The Group has also established a set of risk management policies and measures, which have been codified in its policies and adopted by it. Such policies and measures are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The ultimate goal of the Group's risk management policies and measures is to bring focus and effort to the issues in its business operations that create impediments to the Group's success. The Group's risk management process starts with identifying the major risks associated with its business, industry and market in the ordinary course of business. Depending on the likelihood and potential impacts of the relevant risks exposed to the Group, the management will prioritise the risks and will either take immediate mitigating action, devise contingency plan or conduct periodic review in accordance with the contingency plan. The Board and the senior management are responsible for identifying and analysing the risks associated with their respective function, preparing risk mitigation plans, measuring effectiveness of such risk mitigation plans and reporting status of risk management. Mr. Chan Kin Mei Stanley, our non-executive Director, and chairman of the Corporate Governance Committee is responsible for advising on risk management and corporate governance matters of the Group, while the Audit committee and ultimately the Board will supervise the implementation of the Group's risk management policies and measures.

In relation to the handling and dissemination of inside information in accordance with the GEM Listing Rules and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), the Group has adopted measures including raising awareness of confidentiality in the Group, issuing notices regarding "black-out" period and restrictions on dealings to Directors and employees on a regular basis to ensure compliance when handling and disclosing inside information.

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Dividend Policy

The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the memorandum and articles of association of the Company and all applicable laws and regulations. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. The Company has no fixed dividend pay-out ratio. The Board considers that, in general, the amount of dividends to be declared will depend on general economic conditions as well as the Group's actual and expected financial performance, retained earnings and distributable reserves, cash flow, working capital requirements, capital expenditure requirements and future expansion plans, liquidity position, and other factors as may be considered relevant at such time by the Board.

SHAREHOLDERS' RIGHT AND INVESTOR RELATIONS

As one of the measures to safeguard shareholders' interest and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. All resolutions put forward at shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be published on the GEM website and the Company's website after the relevant meeting.

Extraordinary general meeting may be convened by the Board on the written requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to Article 58 of the memorandum and articles of association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals at general meeting of the Company by sending the same to the Company's principal place of business in Hong Kong.

The Company has adopted shareholders communication policy with the objective of providing the shareholders of the Company with information about the Company and enabling them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

The Company has established several channels to communicate with the shareholders as follows:

- (I) information shall be communicated to the shareholders through the Company's financial reports (quarterly, half-year and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the (i) corporate communication documents including, but not limited to, copy of annual reports, half-year reports, quarterly reports, notices of meeting, circulars, proxy forms ("Corporate Communication"); (ii) other documents issued by the Company which are published on the website of the Stock Exchange for the information or action of holders of any of its securities, including announcements, monthly returns on movements in the Company's securities for each month and next day disclosure returns; (iii) constitutional documents of the Company and the Board committees; (iv) corporate information including list of the Directors; and (v) other Corporate Communication, including the procedures the shareholders can use to propose a person for election as Director, on the Company's website and/or the GEM website;
- (II) annual and special general meetings provide a forum for the shareholders to comment and exchange views with the Directors and the senior management; and
- (III) the Hong Kong share registrar of the Company serves the shareholders in respect of share registration, dividend payment and related matters.

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Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

The Company welcomes enquiries and proposals from investors, stakeholders and the public. Enquires to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

Address: Expert Systems Holdings Limited
22/F., Yen Sheng Centre
64 Hoi Yuen Road
Kwun Tong, Kowloon
Hong Kong
(For the attention of the Directors' office)

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Memorandum and Articles of Association

During the year ended 31 March 2020, the Company has not made any amendment to its memorandum and articles of association.

The Company's memorandum and articles of association is available on the Company's website and the Stock Exchange's website.