

# EXPERT SYSTEMS HOLDINGS LIMITED

## 思博系統控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8319



# 2016/17

## INTERIM REPORT

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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*This report, for which the directors (the “Directors”) of Expert Systems Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

*This report will remain on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk), the GEM website at [www.hkgem.com](http://www.hkgem.com), on the “Latest Company Announcements” page for at least seven days from the date of its posting. This report will also be published on the Company’s website at [www.expertsystems.com.hk](http://www.expertsystems.com.hk).*

# Corporate Information

## BOARD OF DIRECTORS

### Chairman and non-executive Director

Mr. Wong Chu Kee Daniel

### Chief executive officer and executive Director

Mr. Lau Wai Kwok

### Executive Directors

Ms. Lau Tsz Yan

Mr. So Cheuk Wah Benton

### Non-executive Directors

Mr. Chu Siu Sum Alex

Mr. Mok Chu Leung Terry

Mr. Cheung Nap Kai

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

## BOARD COMMITTEES

### Audit Committee

Mr. Au Yu Chiu Steven (*Chairman*)

Mr. Chan Kin Mei Stanley

Mr. Chung Fuk Wing Danny

Mr. Ko Man Fu

Mr. Mak Wai Sing

### Remuneration Committee

Mr. Ko Man Fu (*Chairman*)

Mr. Au Yu Chiu Steven

Mr. Chung Fuk Wing Danny

Mr. Mak Wai Sing

Mr. Wong Chu Kee Daniel

### Nomination Committee

Mr. Chung Fuk Wing Danny (*Chairman*)

Mr. Au Yu Chiu Steven

Mr. Ko Man Fu

Mr. Lau Wai Kwok

Mr. Mak Wai Sing

### Corporate Governance Committee

Mr. Chan Kin Mei Stanley (*Chairman*)

Mr. Au Yu Chiu Steven

Mr. Lau Wai Kwok

Mr. Wong Chu Kee Daniel

### AUDITOR

BDO Limited

Certified Public Accountants

25th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Codan Trust Company (Cayman) Limited

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited  
Level 22  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## COMPANY SECRETARY

Mr. Lau Siu Ki

## AUTHORISED REPRESENTATIVES

Mr. Chan Kin Mei Stanley  
Mr. Lau Wai Kwok

## COMPLIANCE OFFICER

Mr. Lau Wai Kwok

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

17/F., AXA Tower, Landmark East  
100 How Ming Street  
Kwun Tong, Kowloon  
Hong Kong

## COMPLIANCE ADVISER

BOSC International Company Limited  
34/F., Champion Tower  
3 Garden Road  
Central  
Hong Kong

## PRINCIPAL BANKER

Industrial and Commercial Bank of China  
(Asia) Limited  
33/F., ICBC Tower  
3 Garden Road  
Central  
Hong Kong

## GEM STOCK CODE

8319

## COMPANY WEBSITE

[www.expertsystems.com.hk](http://www.expertsystems.com.hk)

The board of Directors (the “Board”) of the Company announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 September 2016, together with the audited comparative figures for the corresponding period in 2015 as follows:

## Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2016

	Notes	Six months ended 30 September	
		2016 (Unaudited) HK\$'000	2015 (Audited) HK\$'000
Revenue	5	138,840	141,301
Cost of sales		(118,337)	(118,612)
Gross profit		20,503	22,689
Other income and gains	5	182	538
Selling expenses		(11,511)	(11,587)
Administrative expenses		(5,121)	(5,290)
Profit before income tax expense		4,053	6,350
Income tax expense	6	(664)	(1,196)
Profit and total comprehensive income for the period		3,389	5,154
		HK\$ cents	HK\$ cents
Earnings per share — Basic and diluted	8	0.43	0.86

# Condensed Consolidated Statement of Financial Position

As at 30 September 2016

	Notes	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Property, plant and equipment		509	535
Finance lease receivables	9	38	45
		<b>547</b>	<b>580</b>
Current assets			
Inventories		3,096	1,465
Trade receivables	10	46,734	44,200
Prepayments, deposits and other receivables		4,254	3,592
Finance lease receivables	9	14	14
Pledged bank deposits		2,100	4,200
Cash and cash equivalents		82,005	50,541
		<b>138,203</b>	<b>104,012</b>
Current liabilities			
Trade payables	11	53,631	63,147
Accruals, deposits received and other payables		10,014	13,746
Amount due to related companies		75	788
Tax payables		7	37
		<b>63,727</b>	<b>77,718</b>
Net current assets		<b>74,476</b>	<b>26,294</b>
Total assets less current liabilities		<b>75,023</b>	<b>26,874</b>
Non-current liabilities			
Other payables		556	556
Net assets		<b>74,467</b>	<b>26,318</b>
<b>EQUITY</b>			
Share capital	12	8,000	100
Reserves		66,467	26,218
Total equity		<b>74,467</b>	<b>26,318</b>

# Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2016

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At 1 April 2016 (audited)	100	33,319	(25,395)	18,294	26,318
Profit and total comprehensive income for the period	–	–	–	3,389	3,389
Capitalisation issue of shares (note 12)	5,900	(5,900)	–	–	–
Issuance of new shares by placing (note 12)	2,000	48,000	–	–	50,000
Shares issue expenses	–	(5,240)	–	–	(5,240)
At 30 September 2016 (unaudited)	8,000	70,179	(25,395)	21,683	74,467
At 1 April 2015 (audited)	8,024	–	–	53,063	61,087
Profit and total comprehensive income for the period	–	–	–	5,154	5,154
Interim dividend (note 7)	–	–	–	(8,000)	(8,000)
At 30 September 2015 (audited)	8,024	–	–	50,217	58,241

# Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2016

	Six months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Audited) HK\$'000
Net cash used in operating activities	(13,475)	(5,566)
Net cash generated from investing activities	2,005	293
Net cash generated from/(used in) financing activities	42,934	(13,973)
Net increase/(decrease) in cash and cash equivalents	31,464	(19,246)
Cash and cash equivalents at beginning of period	50,541	87,225
Cash and cash equivalents at end of period	82,005	67,979



# Notes to the Unaudited Condensed Consolidated Financial Information

For the six months ended 30 September 2016

## 1. GENERAL INFORMATION

Expert Systems Holdings Limited (the “Company”) was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (2004 revision) Chapter 22 of the Cayman Islands on 18 September 2015. Its shares were listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 12 April 2016. The address of the Company’s registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is 17/F, AXA Tower, Landmark East, 100 How Ming Street, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) is principally engaged in the provision of IT infrastructure solutions in Hong Kong and Macau.

Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange, the Company became the holding company of the Group. Details of the Reorganisation are set out in the section headed “History, Reorganisation and Group Structure” in the prospectus of the Company dated 30 March 2016.

## 2. BASIS OF PREPARATION AND PRESENTATION

The interim financial information for the six months ended 30 September 2016 has 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 disclosure requirements of the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”). The principal accounting policies used in the interim unaudited condensed consolidated results are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 March 2016.

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis. The unaudited condensed consolidated results have not been audited by the Company’s auditor, but have been reviewed by the Company’s audit committee.

## 3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current period, the Group has adopted new or revised HKFRSs issued by the HKICPA which are relevant to and effective for the Group’s financial statements for the annual period beginning on or after 1 April 2016. There was no material impact on the Group’s interim financial information upon the adoption of these new or revised HKFRSs.

The Group has not applied any new or revised HKFRSs that is not yet effective for the current accounting period. The Group is in the process of making assessment of the potential impact of these new or revised HKFRSs.

## 4. SEGMENT INFORMATION

The chief operating decision makers are identified as the executive directors of the Company. The Group has identified its operating segment based on the regular internal financial information reported to the Company's executive directors for their decisions about resources allocation and review of performance. For the reporting period, the executive Directors have considered the only operating segment of the Group is the provision of IT infrastructure solutions and finance leasing.

### Geographical information

The following is an analysis of the Group's revenue by the geographical locations of customers.

	Six months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Audited) HK\$'000
Hong Kong	132,821	138,238
Macau	6,019	3,063
	<b>138,840</b>	<b>141,301</b>

### Information about major customers

There is no single customer contributed to 10% or more revenue to the Group for the period.

## 5. REVENUE AND OTHER INCOME AND GAINS

The Group's principal activities are the provision of IT infrastructure solutions and finance leasing.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Audited) HK\$'000
Revenue:		
Provision of IT infrastructure solutions	138,837	141,300
Finance leases income	3	1
Total	<b>138,840</b>	<b>141,301</b>
Other income and gains:		
Interest income	62	412
Exchange gain, net	50	-
Sundry income	70	126
Total	<b>182</b>	<b>538</b>

## 6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Audited) HK\$'000
Current tax — Hong Kong profits tax	664	1,196

Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the reporting period. Overseas taxation is calculated at tax rates applicable to jurisdictions in which the Group operates.

Pursuant to the rules and regulations of Cayman Islands, the Group was not subject to any taxation under the jurisdictions of Cayman Islands during the reporting period (2015: Nil).

No provision for Macau income tax has been made as the Group did not generate any assessable profits arising in Macau during the reporting period (2015: Nil).

## 7. DIVIDENDS

No dividends were paid or declared by the Company or any of the subsidiaries during the reporting period (2015: HK\$8,000,000\*).

\* On 15 June 2015, an interim dividend amounting to HK\$8,000,000 had been proposed by the board of directors of the Company's subsidiary, Expert Systems Limited and approved by its then shareholder. The aforesaid dividend had been paid on 15 July 2015.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to owners of the Company was based on the profit attributable to owners of the Company for the reporting period of HK\$3,389,000 (2015: HK\$5,154,000), and the weighted average number of 787,978,142 ordinary shares in issue during the reporting period (2015: 600,000,000) on the basis that the 600,000,000 ordinary shares of the Company in issue immediately after the Reorganisation and the capitalisation issue (the details of which are set out in the prospectus of the Company dated 30 March 2016) were assumed to have been issued on 1 April 2015.

No diluted earnings per share is calculated for the reporting period and the six months ended 30 September 2015 as there was no potential dilutive ordinary share in existence.

## 9. FINANCE LEASE RECEIVABLES

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
	Current finance lease receivables	14
Non-current finance lease receivables	38	45
	52	59

## Leasing arrangements

Certain of the group's equipment are leased out under finance leases. All leases are denominated in Hong Kong dollars. The average term of finance leases entered into is 5 years.

### Amounts receivables under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Not later than one year	19	19	14	14
Later than one year and not later than five year	54	63	38	45
	73	82	52	59
Less: unearned finance income	(21)	(23)	–	–
	52	59	52	59

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate is approximately 8% per annum.

Finance lease receivable balances are secured over the equipment leased. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

The finance lease receivables at the end of the each reporting period are neither past due nor impaired.

## 10. TRADE RECEIVABLES

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Trade receivables, gross	46,735	44,200
Less: Provision for impairment	(1)	–
Trade receivables, net	46,734	44,200
Less: Non-current trade receivables	–	–
	46,734	44,200

The credit period is generally 7 to 30 days.

An ageing analysis of the Group's trade receivables, net of impairment and based on invoice date, is as follows:

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Within 1 month	24,129	23,512
More than 1 month but not more than 3 months	13,528	15,063
More than 3 months but not more than 6 months	5,909	3,093
More than 6 months but not more than a year	3,167	1,209
More than a year	1	1,323
	46,734	44,200

At the end of each reporting period, the management reviews receivables for evidence of impairment on both an individual and collective basis. Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for impairment of trade receivables during each reporting period is as follows:

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
At beginning of the period/year	–	14
Impairment loss recognised	1	–
Recovery of impairment loss previously recognised	–	(14)
	1	–

At 30 September 2016, the management had determined HK\$1,000 (31 March 2016: nil) impairment loss of trade receivables to be provided.

The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables.

## 11. TRADE PAYABLES

The credit period ranges from approximately 30 to 90 days, based on invoice date.

An ageing analysis of the Group's trade payables as at the end of the Relevant Periods, based on invoice date, is as follows:

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Within 1 month	24,657	26,885
More than 1 month but not more than 3 months	26,873	29,437
More than 3 months but not more than 6 months	1,347	4,579
More than 6 months but not more than a year	547	1,991
More than a year	207	255
	<b>53,631</b>	<b>63,147</b>

## 12. SHARE CAPITAL

The Company was incorporated on 18 September 2015 in the Cayman Islands with an authorized share capital of HK\$100,000 divided into 10,000,000 shares of HK\$0.01 each, of which one share was allotted and issued to Mr. Lau Wai Kwok, an executive director of the Company, at par value.

On 13 October 2015, in accordance with the Reorganisation, Expert Systems Group Limited ("Expert BVI"), a wholly-owned subsidiary of the Company, acquired entire equity interest of Expert Systems (Macau) Limited ("Expert Macau") settled by the allotment and issue of 142,000 shares of the Company, credited as fully paid at par, to the then ultimate shareholders of Expert Macau. Expert Macau thus became an indirect wholly-owned subsidiary of the Company.

On 9 November 2015, in accordance with the Reorganisation, Expert BVI acquired entire equity interest of Expert Systems Limited ("Expert HK") settled by the allotment and issue of 9,857,999 shares of the Company, credited as fully paid at par, to the then ultimate shareholders of Expert HK. Expert HK thus became an indirect wholly-owned subsidiary of the Company.

On 15 March 2016, the shareholders of the Company resolved to increase the authorised share capital of the Company from HK\$100,000 to HK\$100,000,000, divided into 10,000,000,000 shares each by the creation of an additional 9,990,000,000 shares.

Before the completion of the Reorganisation, the share capital balance in the condensed consolidated statement of changes in equity for the six months ended 30 September 2015 represented the combined share capital of the entities comprising the Group existed on 30 September 2015.

Pursuant to the resolutions passed by the shareholders of the Company on 15 March 2016, conditional on the share premium account of the Company being credited as a result of the issue of the shares by the Company pursuant to the placing as mentioned below, a total 590,000,000 ordinary shares were issued to the then shareholders of the Company on a pro-rata basis by way of capitalising an amount of HK\$5,900,000 from the share premium account of the Company on 12 April 2016.

The Company's shares were listed on the GEM of the Stock Exchange by way of placing on 12 April 2016 and 200,000,000 ordinary shares were issued at HK\$0.25 per share on 12 April 2016.

### 13. RELATED PARTY TRANSACTIONS

#### (a) Related party transactions

Save as disclosed elsewhere in this report, the Group had the following material related party transactions:

	Nature of transactions	Six months ended 30 September	
		2016 (Unaudited) HK\$'000	2015 (Audited) HK\$'000
ServiceOne Limited (note (i) & (ii))	Cost of sales — Purchase of goods	–	138
	Cost of sales — Outsourcing IT support services	1,302	1,189
	Total cost of sales	1,302	1,327
ServiceOne Limited (note (i) & (ii))	Sales	44	504
ServiceOne Limited (note (i) & (ii))	Maintenance services	24	24
ServiceOne Technology Services Macau Limited (note (ii) & (iii))	Cost of sales — Outsourcing IT support services	78	561

Notes:

- (i) Mr. Chu Siu Sum Alex and Mr. Wong Chu Kee Daniel (“Mr. Wong”) being directors of ServiceOne Limited, are also the directors of the Company.
- (ii) The controlling shareholders of the Company are also the ultimate shareholders of ServiceOne Limited and ServiceOne Technology Services Macau Limited.
- (iii) Mr. Wong being the director of ServiceOne Technology Services Macau Limited, is also the director of the Company.

(b) Compensation of key management personnel

	Six months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Audited) HK\$'000
Total remuneration of directors and other members of key management during the period was as follows:		
Fees, salaries and staff welfare benefits and discretionary bonus	3,702	3,627
Defined contribution plans	62	64
	<b>3,764</b>	<b>3,691</b>

## 14. COMMITMENTS

### Operating lease commitments — Group as lessee

The Group leased its warehouse and office property under operating lease arrangements which were negotiated for terms of 3 years.

The total future minimum lease payments under non-cancellable operating leases are due as follows:

	30 September 2016 (Unaudited) HK\$'000	31 March 2016 (Audited) HK\$'000
Not later than one year	5,242	5,242
Later than one year and not later than five years	1,644	4,264
	<b>6,886</b>	<b>9,506</b>



# Management Discussion and Analysis

## BUSINESS REVIEW AND OUTLOOK

The shares of the Company (the “Shares”) were successfully listed (the “Listing”) on GEM of the Stock Exchange on 12 April 2016 (the “Listing Date”). The Group is principally engaged in the provision of IT infrastructure solutions whereby the Group assesses, designs and implements IT infrastructure solutions for the Group’s customers by integrating different hardware and software sourced from third party suppliers to satisfy various IT requirements and needs of the Group’s customers.

### Business Review

For the six months ended 30 September 2016 (“Interim FY2017”) as compared to the last corresponding period ended 30 September 2015 (“Interim FY2016”), the Group’s revenue and gross profit decreased by approximately 1.7% and 9.6% respectively, primarily due to the Group’s efforts in maintaining its market share by offering more competitive pricing under the challenging business environment.

### Business in the Private Sector

The Group’s revenue in the private sector slightly decreased by approximately 0.3% from approximately HK\$74.7 million, representing 52.9% of our total revenue, for Interim FY2016 to approximately HK\$74.5 million, representing 53.7% of our total revenue, for Interim FY2017.

The Group’s gross profit in the private sector for Interim FY2017 amounted to approximately HK\$11.3 million, representing 54.9% of our total gross profit and a decrease of approximately HK\$1.3 million, or approximately 10.9%, as compared to that of Interim FY2016 of approximately HK\$12.6 million, which represented 55.7% of our total gross profit in Interim FY2016. Our gross profit margin of this sector in Interim FY2017 was approximately 15.1%, representing a decrease of 1.8 percentage points as compared to that of Interim FY2016 of approximately 16.9%.

We consider that the decrease in gross profit margin of the private sector was the result of our efforts in maintaining our market share by offering more competitive pricing.

## Business in the Public Sector

The Group's revenue in the public sector decreased by approximately 3.4% from approximately HK\$66.6 million, representing 47.1% of our total revenue, for Interim FY2016 to approximately HK\$64.3 million, representing 46.3% of our total revenue, for Interim FY2017.

The Group's gross profit in the public sector for Interim FY2017 amounted to approximately HK\$9.2 million, representing 45.1% of our total gross profit and a decrease of approximately HK\$0.9 million, or approximately 8.0%, as compared to that of Interim FY2016 of approximately HK\$10.1 million, which represented 44.3% of our total gross profit in Interim FY2016. Our gross profit margin of this sector for Interim FY2017 was approximately 14.4%, representing a decrease of 0.7 percentage point as compared to that of Interim FY2016 of approximately 15.1%.

We consider that the decrease in revenue from the public sector was mainly due to the decrease in demand for IT infrastructure solutions from our customers in the public sector for the period. The decrease in gross profit from the public sector was mainly due to the decrease in demand for IT infrastructure solutions from our customers during the period and also the slight decrease in gross profit margin as mentioned above.

## Outlook

The Group anticipates that the overall business environment remains challenging mainly as a result of the weak market conditions and weak economic outlook, slowdown in the growth of the economy of the People's Republic of China and continued fall in local retail sales. We consider that such weak economic outlook may cast uncertainty on the overall demand of our customers for the IT infrastructure solutions in Hong Kong and Macau, and in turn may have negative impact on our business volume and exert pressure on our pricing terms and hence on our profit margin and profitability. In view of the uncertain business environment, the Group will be cautious in managing the business risk; prepare to respond to the changes in such economic and business environment, and aim to strategically develop the Group's business to mitigate the said impacts. The Group will continue to focus on its core businesses and provide innovative and integrated IT infrastructure solutions to customers in both private and public sectors, to enable its corporate and institution customers to extract maximum value from their IT engagements.

## FINANCIAL REVIEW

### Revenue

The Group's revenue decreased by approximately 1.7% from approximately HK\$141.3 million for Interim FY2016 to approximately HK\$138.8 million for Interim FY2017, which was primarily attributable to the decrease in demand from our customers for IT infrastructure solutions in Interim FY2017 as compared to Interim FY2016.

### Gross profit and gross profit margin

For Interim FY2017, our gross profit amounted to approximately HK\$20.5 million, representing a decrease of approximately HK\$2.2 million, or approximately 9.6%, as compared to that of Interim FY2016 of approximately HK\$22.7 million.

The Group's gross profit margin for Interim FY2017 was approximately 14.8%, representing a decrease of approximately 1.3 percentage points as compared to that of Interim FY2016 of approximately 16.1%. The decrease in the Group's gross profit margin was primarily due to the Group's efforts in maintaining its market share by offering more competitive pricing under the challenging business environment.

### Other income and gains

Other income and gains decreased by approximately HK\$0.3 million, or approximately 66.2%, from approximately HK\$0.5 million for Interim FY2016 to approximately HK\$0.2 million for Interim FY2017. The decrease was mainly due to the decrease in interest income.

### Selling expenses

For Interim FY2017, the Group's selling expenses amounted to approximately HK\$11.5 million, which was comparable to that of Interim FY2016.

### Administrative expenses

The Group's administrative expenses for Interim FY2017 were approximately HK\$5.1 million, representing a slight decrease of approximately 3.2% from approximately HK\$5.3 million for Interim FY2016. The decrease was primarily due to the net effect of (i) the increase in compliance costs for Listing of approximately HK\$1.3 million; (ii) the increase in rental and related costs of approximately HK\$0.2 million for our warehouse; (iii) the decrease in exchange difference of approximately HK\$0.5 million, (iv) the decrease in sales commission and bonus of approximately HK\$0.4 million, and (v) the non-recurring Listing related expenses of approximately HK\$0.9 million incurred in Interim FY2016.

## Income tax expense

The Group's income tax expense for Interim FY2017 was approximately HK\$0.7 million, representing a decrease of approximately 44.5% from approximately HK\$1.2 million for Interim FY2016. The effective tax rate for Interim FY2017 was 16.4% which was comparable to that of 16.6% for Interim FY2016 after excluding the abovementioned non-recurring Listing related expenses of HK\$0.9 million which is non-deductible.

## Profit attributable to owners of the Company

The profit attributable to owners of the Company decreased by approximately 34.2% from approximately HK\$5.2 million for Interim FY2016 to approximately HK\$3.4 million for Interim FY2017, which was primarily attributable to the above mentioned effects.

## LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

Apart from the net proceeds received from the Placing as stated in the prospectus of the Company dated 30 March 2016 (the "Prospectus"), we financed our operations primarily through cash generated from our operating activities. During Interim FY2017, we did not have any bank borrowings. As at 30 September 2016, we had cash and cash equivalents of approximately HK\$82.0 million (31 March 2016: approximately HK\$50.5 million), which were cash at banks and in hand.

As at 30 September 2016, the bank deposit of HK\$2.1 million (31 March 2016: HK\$4.2 million) was pledged to a bank for a tender (31 March 2016: two tenders) from Government Logistics Department of Hong Kong as banker's guarantee. Such banker's guarantee amounted to HK\$2.1 million (31 March 2016: HK\$4.2 million) and the banking facility granted to the Group amounted to HK\$10.8 million (31 March 2016: HK\$10.8 million), of which HK\$8.7 million was unutilised (31 March 2016: HK\$6.6 million).

The Group's gearing ratio, which is calculated by total debt (defined as bank and other debts incurred not in the ordinary course of business) divided by total equity, was nil as at 30 September 2016.

We expect that our liquidity position would further be strengthened by using the cash generated from our operating activities. Going forward, we intend to use our capital for our operations and the expansion plans as stated in the Prospectus.

## CAPITAL STRUCTURE

As at 30 September 2016, the capital structure of our Company comprised issued share capital and reserves.

## COMMITMENTS

Our contract commitments mainly involve leases of office and warehouse properties. As at 30 September 2016, the Group's operating lease commitments were approximately HK\$6.9 million (31 March 2016: approximately HK\$9.5 million).

## FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have other plans for material investments and capital assets.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During Interim FY2017, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies save for those related to the reorganisation, for which the details are set out in the Prospectus.

## SIGNIFICANT INVESTMENTS

As at 30 September 2016, the Group did not hold any significant investments.

## CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2016 (31 March 2016: nil).

## EXPOSURE TO EXCHANGE RATE FLUCTUATION

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong with most of the transactions denominated and settled in HK\$. During Interim FY2017, the Group's exposure to foreign currency risk primarily arose from certain financial instruments including trade receivables, cash and cash equivalents and held-to-maturity investments which are denominated in MOP and/or US\$ (Interim FY2016: RMB, MOP and/or US\$). During Interim FY2017 and Interim FY2016, the Group did not adopt any hedging strategy but the management continuously monitored the foreign exchange risk exposure on a case-by-case basis. The Group did not use any hedging contracts to engage in speculative activities during Interim FY2017 and Interim FY2016.

## CHARGE ON GROUP'S ASSETS

As at 30 September and 31 March 2016, the Group had no charges on the Group's assets.

## INFORMATION ON EMPLOYEES

As at 30 September 2016, the Group had 81 employees (31 March 2016: 73) working in Hong Kong. Employees are remunerated according to their performance and work experience. On top of basic salary, commission, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. The total staff cost (including remuneration of the Directors and mandatory provident funds contributions) for Interim FY2017 amounted to approximately HK\$13.1 million (Interim FY2016: HK\$13.4 million).

## INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2016 (six months ended 30 September 2015: HK\$8,000,000\*).

- \* On 15 June 2015, an interim dividend amounting to HK\$8,000,000 had been proposed by the board of directors of the Company's subsidiary, Expert Systems Limited and approved by its then shareholder. The aforesaid dividend had been paid on 15 July 2015.

## Other Information

### DIRECTORS' AND CHIEF EXECUTIVES' INTEREST AND SHORT POSITION IN SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 September 2016, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which shall have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which shall be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which shall be required to notify the Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules, were as follows:

#### Long position

Name of Director/ chief executive	Name of Group member/ associated corporation	Nature of interest	Total number of Shares	Approximate percentage of shareholding
Mr. Chu Siu Sum Alex ("Mr. Chu")	The Company	Beneficial owner	226,380,000 Shares	28.3%
Mr. Lau Wai Kwok ("Mr. Lau")	The Company	Beneficial owner	96,900,000 Shares	12.1%
Mr. Mok Chu Leung Terry ("Mr. Mok")	The Company	Beneficial owner	91,800,000 Shares	11.5%
Mr. Cheung Nap Kai ("Mr. Cheung")	The Company	Beneficial owner	89,760,000 Shares	11.2%
Mr. Wong Chu Kee Daniel ("Mr. Wong")	The Company	Beneficial owner	51,300,000 Shares	6.4%
Mr. Chan Kin Mei Stanley	The Company	Beneficial owner	6,720,000 Shares	0.8%

Save as disclosed above, none of the Directors and chief executives of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules as at 30 September 2016.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES OR UNDERLYING SHARES

As at 30 September 2016, so far as the Directors are aware, other than the Directors and chief executive of the Company whose interests are disclosed under the paragraph headed "Directors' and chief executives' interest and short positions in shares, underlying shares or debentures" above, the following persons had an interest or short position in the shares or underlying shares of the Company which shall be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which is required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

### Long position

Name of shareholders	Nature of interest	Total Number of Shares	Approximate percentage of shareholding
Ms. Luk Yuen Wah Nancy	Interest of spouse	226,380,000 (Note 1)	28.3%
Ms. Keung Lai Wa Dorathy Linndia	Interest of spouse	96,900,000 (Note 2)	12.1%
Ms. Yan Yihong	Interest of spouse	91,800,000 (Note 3)	11.5%
Ms. Tuen Chi Keung	Interest of spouse	89,760,000 (Note 4)	11.2%
Ms. Lee Kit Ling Monita	Interest of spouse	51,300,000 (Note 5)	6.4%

Notes:

- Ms. Luk Yuen Wah Nancy, the spouse of Mr. Chu, is deemed to be interested in all the Shares in which Mr. Chu is interested by virtue of the SFO.
- Ms. Keung Lai Wa Dorathy Linndia, the spouse of Mr. Lau, is deemed to be interested in all the Shares in which Mr. Lau is interested by virtue of the SFO.
- Ms. Yan Yihong, the spouse of Mr. Mok, is deemed to be interested in all the Shares in which Mr. Mok is interested by virtue of the SFO.
- Ms. Tuen Chi Keung, the spouse of Mr. Cheung, is deemed to be interested in all the Shares in which Mr. Cheung is interested by virtue of the SFO.
- Ms. Lee Kit Ling Monita, the spouse of Mr. Wong, is deemed to be interested in all the Shares in which Mr. Wong is interested by virtue of the SFO.

Saved as disclosed above, the Directors were not aware of any other persons other than the Directors or chief executive of the Company who held an interest or short positions in the shares and underlying shares of the Company which required to be recorded pursuant to section 336 of the SFO as at 30 September 2016.



## Comparison of Business Objective with Actual Business Progress

The following is a comparison of the Group's business plan as set out in the Prospectus with actual business progress from the latest practicable date (as defined in the Prospectus) up to 30 September 2016.

Business Objectives up to 30 September 2016 as set out in the Prospectus	Actual business progress up to 30 September 2016
Expanding and training sales, technical and support workforce	Recruited totally 8 suitable candidates as sales and supporting staff.  Provided internal and external continuous professional development programmes to sales and technical staff regularly.
Expansion of IT infrastructure solutions business	Explored and evaluated potential IT infrastructure solutions projects, particularly large scale projects requiring provision of performance bonds given the strategy to expand the Group's IT infrastructure solutions business.
Enhancement of management information systems	Reviewed and evaluated existing management information systems for upgrading.
Strengthening marketing efforts	Devised, reviewed and evaluated the plan for upgrading demonstration facilities.

## Use of Proceeds

During the reporting period, the Company offered 200,000,000 Shares for subscription by way of placing and raised net proceeds of approximately HK\$32.2 million.

Up to 30 September 2016, the net proceeds from the Listing were applied as follows:

	Planned use of proceeds as stated in the Prospectus up to 30 September 2016 HK\$ million	Actual use of proceeds up to 30 September 2016 HK\$ million
Expanding and training sales, technical and support workforce	0.3	0.2
Working capital and general corporate purposes	0.7	0.7
<b>Total</b>	<b>1.0</b>	<b>0.9</b>

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

## SHARE OPTION SCHEME OF THE COMPANY

The share option scheme was conditionally approved and adopted pursuant to a resolution in writing passed by the shareholders of the Company on 15 March 2016, which became effective on the Listing Date. A summary of the principal terms of the share option scheme is set out in Appendix IV to the Prospectus.

No share option was granted, exercised, expired or lapsed during the reporting period and there was no outstanding share option under the scheme as at 30 September 2016.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Shares have been listed on the GEM of the Stock Exchange since the Listing Date. Save as the Listing, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from the Listing Date to 30 September 2016.

## DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

None of the Directors, the directors of the Company's subsidiaries, the Company's controlling shareholders, or any of their respective close associates, as defined in the GEM Listing Rules, had interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group or has any other conflict of interests with the Group (other than being a Director and/or a director of its subsidiaries and their respective associates) during the reporting period.

## 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 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 during the period from the Listing Date up to 30 September 2016.

## INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, BOSC International Company Limited, save for the compliance adviser agreement dated 29 March 2016 entered into between the Company and BOSC International Company Limited, none of BOSC International Company Limited, its directors, employees and close associates had any interest in the securities of the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules as at 30 September 2016.

## CORPORATE GOVERNANCE PRACTICE

The Company has applied the principles and code provisions in the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 15 to the GEM Listing Rules. In the opinion of the Board, the Company has complied with the Code from the Listing Date up to 30 September 2016.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the results of the Group for the six months ended 30 September 2016 with the management and is of the view that such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

## APPRECIATION

On behalf of the Board of Directors, I would like to thank all our employees for their contribution and commitments. I also wish to extend my sincere gratitude to our shareholders, customers, suppliers and business partners for their long-term supports and dedication in the reporting period.

By order of the Board  
Expert Systems Holdings Limited  
Wong Chu Kee Daniel  
*Chairman and Non-Executive Director*

Hong Kong, 8 November 2016

*As at the date of this report, the Board composition is as follows:*

*Chairman and non-executive Director:*

Mr. Wong Chu Kee Daniel

*Chief executive officer and executive Director:*

Mr. Lau Wai Kwok

*Executive Directors:*

Ms. Lau Tsz Yan

Mr. So Cheuk Wah Benton

*Non-executive Directors:*

Mr. Chu Siu Sum Alex

Mr. Mok Chu Leung Terry

Mr. Cheung Nap Kai

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