

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

THIRD QUARTERLY 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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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, the GEM website at 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.

The board of Directors (the “Board”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months and the nine months ended 31 December 2016, together with the unaudited comparative figures for the corresponding periods in 2015 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the three months and the nine months ended 31 December 2016

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue	4	78,396	68,621	217,236	209,922
Cost of sales		(67,673)	(58,786)	(186,010)	(177,398)
Gross profit		10,723	9,835	31,226	32,524
Other income and gains	4	251	180	433	718
Selling expenses		(6,140)	(5,696)	(17,651)	(17,283)
Administrative expenses		(2,802)	(10,516)	(7,923)	(15,806)
Profit/(loss) before income tax expense		2,032	(6,197)	6,085	153
Income tax expense	5	(342)	(370)	(1,006)	(1,566)
Profit/(loss) and total comprehensive income for the period		1,690	(6,567)	5,079	(1,413)
Earnings/(loss) per share — Basic and diluted	7	HK\$ cents 0.21	HK\$ cents (1.09)	HK\$ cents 0.64	HK\$ cents (0.24)

Condensed Consolidated Statement of Changes in Equity

For the nine months ended 31 December 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	–	–	–	5,079	5,079
Capitalisation issue of shares (note 8)	5,900	(5,900)	–	–	–
Issuance of new shares by placing (note 8)	2,000	48,000	–	–	50,000
Shares issue expenses	–	(5,240)	–	–	(5,240)
At 31 December 2016 (unaudited)	8,000	70,179	(25,395)	23,373	76,157
At 1 April 2015 (audited) (note 8)	8,024	–	–	53,063	61,087
Loss and total comprehensive income for the period	–	–	–	(1,413)	(1,413)
Arising from the reorganisation (note 8)	(8,024)	–	(25,395)	–	(33,419)
Allotment of shares (note 8)	100	33,319	–	–	33,419
Dividend declared and paid (note 6)	–	–	–	(33,000)	(33,000)
At 31 December 2015 (unaudited)	100	33,319	(25,395)	18,650	26,674

Notes to the Unaudited Condensed Consolidated Financial Information

For the nine months ended 31 December 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 “Listing Date”). 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 (the “Prospectus”).

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (collectively, HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the GEM Listing Rules. The principal accounting policies used in the third quarterly 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 HKICPA has issued a number of new and revised HKFRSs. For those which are relevant to the Group’s operations and effective for its accounting period beginning on 1 April 2016, the adoption has no significant changes on the Group’s accounting policies, the presentation, the reported results and the financial position of the Group for the current or prior accounting periods.

The Group has not applied the new and revised HKFRSs which have been issued but are not yet effective. The Group is currently in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether they would have a material impact on the Group’s results and financial position.

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. 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.

	Three months ended 31 December		Nine months ended 31 December	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Hong Kong	77,875	67,805	210,696	206,043
Macau	521	816	6,540	3,879
	78,396	68,621	217,236	209,922

Information about major customers

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

4. 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:

	Three months ended 31 December		Nine months ended 31 December	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Revenue:				
Provision of IT infrastructure solutions	78,395	68,620	217,232	209,920
Finance leasing	1	1	4	2
Total	78,396	68,621	217,236	209,922
Other income and gains:				
Interest income	150	111	212	523
Exchange gain, net	22	32	72	32
Sundry income	79	37	149	163
Total	251	180	433	718

5. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	31 December		31 December	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current tax				
— Hong Kong profits tax	342	370	1,006	1,566

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).

6. DIVIDENDS

No dividends were paid or declared by the Company or any of the subsidiaries during the nine months ended 31 December 2016 (2015: HK\$33,000,000*).

* During the nine months ended 31 December 2015, an interim dividend in respect of the year ended 31 March 2015 of HK\$1.2308 per ordinary share, or in aggregation of HK\$8,000,000 was paid by Expert Systems Limited to its then shareholders.

During the nine months ended 31 December 2015, a dividend in respect of the period ended 31 October 2015 of HK\$3.846 per ordinary share, or in aggregation of HK\$25,000,000 was paid by Expert Systems Limited to its then shareholders.

7. EARNINGS/LOSS PER SHARE

The calculation of basic earnings per share for the nine months ended 31 December 2016, was based on the profit attributable to the owners of the Company of HK\$5,079,000 (2015: loss of HK\$1,413,000) and the weighted average number of shares during the period of 792,000,000 (2015: 600,000,000).

The calculation of basic earnings per share for the three months ended 31 December 2016, was based on the profit attributable to the owners of the Company of HK\$1,690,000 (2015: loss of HK\$6,567,000) and the weighted average number of shares during the period of 800,000,000 (2015: 600,000,000).

The calculation was made 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) were assumed to have been issued on 1 April 2015.

No diluted earnings/loss per share was calculated for the reporting periods presented as there was no potential dilutive ordinary share in existence.

8. 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 nine months ended 31 December 2015 represented the combined share capital of the entities comprising the Group existing on 1 April 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.

Ordinary shares issued and fully paid:

	As at 31 December 2016 Number of Shares	As at 31 December 2016 HK\$'000	As at 31 December 2015 Number of Shares	As at 31 December 2015 HK\$'000
Ordinary shares				
At beginning of period (audited)	10,000,000	100	8,024,000	8,024
Arising from the Reorganisation			(8,024,000)	(8,024)
Allotment of shares			10,000,000	100
Issue of shares upon capitalisation issue	590,000,000	5,900		
Issue of shares by placing	200,000,000	2,000		
At end of period (unaudited)	800,000,000	8,000	10,000,000	100

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 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 nine months ended 31 December 2016 (“Q3 FY2017”) as compared to the last corresponding period ended 31 December 2015 (“Q3 FY2016”), the Group’s revenue increased by approximately 3.5% while gross profit decreased by approximately 4.0%, 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 increased by approximately 0.6% from approximately HK\$120.8 million, representing 57.5% of our total revenue, for Q3 FY2016 to approximately HK\$121.5 million, representing 55.9% of our total revenue, for Q3 FY2017.

The Group’s gross profit in the private sector for Q3 FY2017 amounted to approximately HK\$17.3 million, representing 55.5% of our total gross profit and a decrease of approximately HK\$1.5 million, or approximately 7.7%, as compared to that of Q3 FY2016 of approximately HK\$18.8 million, which represented 57.7% of our total gross profit in Q3 FY2016. Our gross profit margin of this sector in Q3 FY2017 was approximately 14.3%, representing a decrease of 1.2 percentage points as compared to that of Q3 FY2016 of approximately 15.5%.

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 increased by approximately 7.4% from approximately HK\$89.1 million, representing 42.5% of our total revenue, for Q3 FY2016 to approximately HK\$95.7 million, representing 44.1% of our total revenue, for Q3 FY2017.

The Group’s gross profit in the public sector for Q3 FY2017 amounted to approximately HK\$13.9 million, representing 44.5% of our total gross profit and an increase of approximately HK\$0.1 million, or approximately 1.0%, as compared to that of Q3 FY2016 of approximately HK\$13.8 million, which represented 42.3% of our total gross profit in Q3 FY2016. Our gross profit margin of this sector for Q3 FY2017 was approximately 14.5%, representing a decrease of 0.9 percentage point as compared to that of Q3 FY2016 of approximately 15.4%.

We consider that the increase in revenue and gross profit from the public sector was mainly due to the increase in demand for IT infrastructure solutions from our customers in the public sector for the period.

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 the Group's profit margin and profitability. In view of the uncertain business environment, the Group will continue to 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 increased by approximately 3.5% from approximately HK\$209.9 million for Q3 FY2016 to approximately HK\$217.2 million for Q3 FY2017, which was primarily attributable to the increase in demand from our customers for IT infrastructure solutions in Q3 FY2017 as compared to Q3 FY2016.

Gross profit and gross profit margin

For Q3 FY2017, our gross profit amounted to approximately HK\$31.2 million, representing a decrease of approximately HK\$1.3 million, or approximately 4.0%, as compared to that of Q3 FY2016 of approximately HK\$32.5 million.

The Group's gross profit margin for Q3 FY2017 was approximately 14.4%, representing a decrease of approximately 1.1 percentage points as compared to that of Q3 FY2016 of approximately 15.5%. 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 39.7%, from approximately HK\$0.7 million for Q3 FY2016 to approximately HK\$0.4 million for Q3 FY2017. The decrease was mainly due to the decrease in interest income.

Selling expenses

For Q3 FY2017, the Group's selling expenses amounted to approximately HK\$17.7 million, representing an increase of approximately HK\$0.4 million, or approximately 2.1%, as compared to that of Q3 FY2016 of approximately HK\$17.3 million. The increase was mainly due to the increase in salary.

Administrative expenses

The Group's administrative expenses for Q3 FY2017 were approximately HK\$7.9 million, representing a substantial decrease of approximately 49.9% from approximately HK\$15.8 million for Q3 FY2016. The substantial decrease was primarily due the net effect of (i) the non-recurring Listing related expenses of approximately HK\$9.3 million incurred in Q3 FY2016 but no such expenses in Q3 FY2017; (ii) the decrease in exchange loss of approximately HK\$0.5 million; (iii) the decrease in sales commission and bonus of approximately HK\$0.3 million; (iv) the increase in compliance costs for Listing of approximately HK\$1.9 million; and (v) the increase in rental and related costs of approximately HK\$0.2 million for our warehouse.

Income tax expense

The Group's income tax expense for Q3 FY2017 was approximately HK\$1.0 million, representing a decrease of approximately 35.8% from approximately HK\$1.6 million for Q3 FY2016. The effective tax rate for Q3 FY2017 was 16.5% which was comparable to that of 16.6% for Q3 FY2016 after excluding the abovementioned non-recurring Listing related expenses of HK\$9.3 million which is non-deductible.

Profit attributable to owners of the Company

The profit attributable to owners of the Company amounted to approximately HK\$5.1 million as compared with a net loss of approximately HK\$1.4 million for Q3 FY2016, which was primarily attributable to the above mentioned effects. However, after adjustment by adding back the abovementioned non-recurring Listing related expenses of HK\$9.3 million incurred in Q3 FY2016, the Group's underlying net profit for Q3 FY2016 would amount to approximately HK\$7.9 million, and the Group would record a decrease of approximately HK\$2.8 million, or approximately 35.5%, in net profit for Q3 FY2017 as compared to the underlying net profit for Q3 FY2016.

OTHER INFORMATION

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

As at 31 December 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	28.3%
Mr. Lau Wai Kwok ("Mr. Lau")	The Company	Beneficial owner	96,900,000	12.1%
Mr. Mok Chu Leung Terry ("Mr. Mok")	The Company	Beneficial owner	91,800,000	11.5%
Mr. Cheung Nap Kai ("Mr. Cheung")	The Company	Beneficial owner	89,760,000	11.2%
Mr. Wong Chu Kee Daniel ("Mr. Wong")	The Company	Beneficial owner	51,300,000	6.4%
Mr. Chan Kin Mei Stanley	The Company	Beneficial owner	6,720,000	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 31 December 2016.

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

As at 31 December 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 are required to be recorded pursuant to section 336 of the SFO as at 31 December 2016.

USE OF PROCEEDS

The business objectives as stated in the Prospectus were based on the best estimation of the future market conditions made by the Group at the time of preparing the Prospectus. The use of proceeds was applied in accordance with the actual development of the market.

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 31 December 2016, the net proceeds from the Listing were utilized of approximately HK\$0.9 million. The unused net proceeds have been placed as interest bearing deposits into licensed bank in Hong Kong.

The Company intends to apply the net proceeds in the manner as stated in the Prospectus. However, the Directors will constantly evaluate the Group's business objectives and may change or modify its plans against the changing market condition to attain sustainable business growth of the Group. In the event that the Directors consider it necessary to change the use of net proceeds from that stated in the Prospectus, the Company will make an appropriate announcement in accordance with the relevant provision of the GEM Listing Rules.

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 31 December 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 31 December 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 31 December 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 31 December 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 31 December 2016.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the quarterly report of the Group for the nine months ended 31 December 2016 with the management and is of the view that such quarterly report 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, 9 February 2017

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