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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given that the companies listed on GEM are generally small and mid-sized companies, 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.

This announcement, 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 announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

This announcement will remain on the Stock Exchange’s website at www.hkexnews.hk, the GEM website at www.hkgem.com on the “Latest Company Announcements” page for a minimum period of 7 days from the date of publication. This announcement will also be published and remains on the Company’s website at 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 2019, together with the unaudited comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2019

		Six months ended	
		30 September	
		2019	2018
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Revenue	5	219,330	189,413
Cost of sales		<u>(191,722)</u>	<u>(164,242)</u>
Gross profit		27,608	25,171
Other income and gains	5	504	268
Selling expenses		(16,244)	(14,432)
Administrative expenses		(5,609)	(5,525)
Expected credit loss on financial assets		(186)	–
Finance cost		<u>(213)</u>	<u>–</u>
Profit before income tax expense		5,860	5,482
Income tax expense	6	<u>(966)</u>	<u>(917)</u>
Profit and total comprehensive income for the period		<u>4,894</u>	<u>4,565</u>
Earnings per share			
— Basic and diluted	8	<u>HK0.61 cent</u>	<u>HK0.57 cent</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

		30 September 2019 <i>HK\$'000</i> (unaudited)	31 March 2019 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		8,809	1,529
Finance lease receivables	9	220	195
Trade receivables	10	3,743	5,562
		12,772	7,286
Current assets			
Inventories		4,671	3,586
Trade receivables	10	118,743	93,921
Prepayments, deposits and other receivables		8,942	8,411
Finance lease receivables	9	204	424
Cash and cash equivalents		55,364	99,074
		187,924	205,416
Current liabilities			
Trade payables	11	77,295	100,266
Accruals, deposits received and other payables		11,395	14,629
Amounts due to a related company		669	210
Lease liabilities		1,373	–
Dividend payable		3,360	–
Tax payables		2,074	1,331
		96,166	116,436
Net current assets		91,758	88,980
Total assets less current liabilities		104,530	96,266
Non-current liabilities			
Lease liabilities		6,562	–
Other payables		559	559
		7,121	559
Net assets		97,409	95,707
Equity			
Share capital	12	8,000	8,000
Reserves		89,409	87,707
		97,409	95,707

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Merger reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 31 March 2019 and 1 April 2019 (audited)	8,000	70,179	(25,395)	–	42,923	95,707
Initial application of HKFRS 16	–	–	–	–	(137)	(137)
Restated balance as at 1 April 2019	8,000	70,179	(25,395)	–	42,786	95,570
Profit and total comprehensive income for the period	–	–	–	–	4,894	4,894
Recognition of equity-settled share-based payment	–	–	–	305	–	305
Dividend approved in respect of the previous year (<i>note 7</i>)	–	(3,360)	–	–	–	(3,360)
At 30 September 2019 (unaudited)	<u>8,000</u>	<u>66,819</u>	<u>(25,395)</u>	<u>305</u>	<u>47,680</u>	<u>97,409</u>
At 31 March 2018 and 1 April 2018 (audited)	8,000	70,179	(25,395)	–	32,170	84,954
Profit and total comprehensive income for the period	–	–	–	–	4,565	4,565
At 30 September 2018 (unaudited)	<u>8,000</u>	<u>70,179</u>	<u>(25,395)</u>	<u>–</u>	<u>36,735</u>	<u>89,519</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

	Six months ended	
	30 September	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(42,988)	(35,267)
Net cash generated from investing activities	152	99
Net cash used in financing activities	<u>(874)</u>	<u>–</u>
Net decrease in cash and cash equivalents	(43,710)	(35,168)
Cash and cash equivalents at beginning of the period	<u>99,074</u>	<u>96,032</u>
Cash and cash equivalents at end of the period	<u><u>55,364</u></u>	<u><u>60,864</u></u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

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 (“Shares”) have been listed on the 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 P.O. Box 10008, Willow House, Cricket Square, Grand Cayman KY1-1001, Cayman Islands and its principal place of business in Hong Kong is 22/F., Yen Sheng Centre, 64 Hoi Yuen Road, Kwun Tong, 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.

2. BASIS OF PREPARATION AND PRESENTATION

The unaudited condensed consolidated financial statements for the six months ended 30 September 2019 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” 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 these unaudited condensed consolidated financial statements are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 March 2019 except for the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and interpretations issued by the HKICPA that are first effective for the current reporting period of the Company.

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis. The unaudited condensed consolidated financial statements are presented in Hong Kong dollars (HK\$), which is also the functional currency of the Company and its subsidiaries, and all values are rounded to the nearest thousands, except when otherwise indicated. The unaudited condensed consolidated financial statements have not been audited by the Company’s auditor, but have been reviewed by the Company’s audit committee.

3. ADOPTION OF HKFRSs

Adoption of new HKFRSs — effective 1 April 2019

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2019, as described in those annual financial statements, except for the adoption of the following new standards and interpretations as of 1 April 2019 and the policies stated in below:

- *HKFRS 16 Leases (“HKFRS 16”)*

The impacts of the adoption of HKFRS 16 have been summarised as below. The other new or amended HKFRSs that are effective from 1 April 2019 did not have any material impact on the Group’s accounting policies.

Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases (“HKAS 17”), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the statement of financial position as a right-of-use assets under property, plant and equipment (“right-of-use assets”) and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application. The comparative information presented as at the year end of 2019 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The effect of adoption of HKFRS 16 is as follows:

The impacts arising from the adoption of HKFRS 16 as at 1 April 2019 are as follows (increase/(decrease)):

	<i>HK\$’000</i> (unaudited)
Non-current assets	
Right-of-use assets	8,208
Increase in total assets	<u>8,208</u>
Current liabilities	
Lease liabilities	1,338
Accruals, deposits received and other payables	(251)
Non-current liabilities	
Lease liabilities	7,258
Increase in total liabilities	<u>8,345</u>
Equity	
Retained earnings	(137)
Decrease in equity	<u>(137)</u>

The lease liabilities as at 1 April 2019 reconciled to the operating leases commitments as at 31 March 2019 is as follows:

	<i>HK\$'000</i> (unaudited)
Operating lease commitments as at 31 March 2019	5,772
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	<u>4,124</u>
	9,896
Less: total future interest expenses	<u>(1,300)</u>
Lease liabilities as at 1 April 2019	<u><u>8,596</u></u>
Of which are:	
— current lease liabilities	1,338
— non-current lease liabilities	<u>7,258</u>
	<u><u>8,596</u></u>

The impact on the unaudited condensed consolidated statement of financial position and unaudited condensed consolidated statement of comprehensive income for the period:

	Right-of-use assets <i>HK\$'000</i> (unaudited)	Lease liabilities <i>HK\$'000</i> (unaudited)
As at 1 April 2019	8,208	8,596
Depreciation expense	(749)	–
Interest expense	–	213
Payments	<u>–</u>	<u>(874)</u>
As at 30 September 2019	<u><u>7,459</u></u>	<u><u>7,935</u></u>

New definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for leases which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use assets

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability; (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

Lease liabilities

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

13The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

Transition

As mentioned above, the Group has applied HKFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying HKFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application on 1 April 2019. The comparative information presented as at the year end of 2019 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities at the date of 1 April 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 April 2019.

The Group has elected to recognise all the right-of-use assets at 1 April 2019 for leases previously classified operating leases under HKAS 17 as if HKFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application. For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 April 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application on 1 April 2019 and accounted for those leases as short-term leases; (ii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 April 2019 and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int4.

Except as described above, the Directors of the Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the Group's unaudited condensed consolidated financial statements for the six months ended 30 September 2019.

4. SEGMENT INFORMATION

The chief operating decision maker is identified as 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 to be the provision of IT infrastructure solutions and finance leases.

Geographical information

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

	Six months ended 30 September	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Hong Kong	214,448	188,656
Macau	4,882	757
	<u>219,330</u>	<u>189,413</u>

During the reporting period, all of the Group's non-current assets are located in Hong Kong.

Information about major customers

There is no single customer who contributed to 10.0% or more revenue to the Group for the reporting period (2018: nil).

5. REVENUE AND OTHER INCOME AND GAINS

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

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

	Six months ended 30 September	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Revenue:		
Provision of IT infrastructure solutions	219,210	189,280
Finance leases	120	133
Total	<u>219,330</u>	<u>189,413</u>
Other income and gains:		
Interest income	369	217
Exchange gain, net	5	–
Sundry income	130	51
Total	<u>504</u>	<u>268</u>

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Receivables	122,486	99,483
Contract liabilities	(5,254)	(5,572)

6. INCOME TAX EXPENSE

	Six months ended 30 September 2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Current tax		
— Hong Kong profits tax	966	917

Hong Kong profits tax rate for the first HK\$2.0 million of assessable profits of corporations is lowered to 8.25% (2018: 8.25%) with the excess assessable profits continue to be taxed at 16.5% (2018: 16.5%). 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 is not subject to any taxation under the jurisdictions of Cayman Islands during the reporting period (2018: 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 (2018: nil).

7. DIVIDENDS

A final dividend in respect of the year ended 31 March 2019 of HK0.42 cent per ordinary share (tax exclusive) amounting to HK\$3,360,000 was proposed pursuant to a resolution passed by the Board of Directors on 20 June 2019 and was approved by the shareholders at the annual general meeting of the Company on 10 September 2019.

Other than disclosed above, no dividends were paid or declared by the Company during the reporting period (2018: nil).

8. EARNINGS PER SHARE

For the period ended 30 September 2019, the calculation of basic earnings per share is based on the profit for the period attributable to the owners of the Company of HK\$4,894,000 (2018: HK\$4,565,000) and on the basis of the weighted average number of 800,000,000 (2018: 800,000,000) ordinary shares in issue.

The calculation of the diluted earnings per share is based on the profit for the period attributable to the owners of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

No adjustment has been made to the basic earnings per share amount presented for the period ended 30 September 2019 in respect of a dilution as the exercise of the share options had an anti-dilutive effect on the basic earnings per share amount presented.

9. FINANCE LEASE RECEIVABLES

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Current finance lease receivables	204	424
Non-current finance lease receivables	220	195
	424	619

Leasing arrangements

Certain of the Group's equipment were leased out under finance leases. All leases are denominated in Hong Kong dollars. The term of finance leases entered into ranged from 2 to 5 years.

Amounts receivable under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Not later than one year	302	591	204	424
Later than one year and not later than five years	365	317	220	195
	667	908	424	619
Less: unearned finance income	(243)	(289)	-	-
Present value of minimum lease payments receivable	424	619	424	619

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 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Trade receivables, gross	122,968	99,779
Less: Provision for impairment	(482)	(296)
	122,486	99,483
Less: non-current portion	(3,743)	(5,562)
	118,743	93,921

The credit period is generally 7 to 60 days.

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

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Within 1 month	34,232	39,270
More than 1 month but not more than 3 months	39,596	33,149
More than 3 months but not more than 6 months	28,825	8,559
More than 6 months but not more than a year	7,746	7,407
More than a year	12,087	11,098
	122,486	99,483

At the end of each reporting period, the management review 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 management assessed impairment by expected credit losses model since initial application of HKFRS 9 Financial Instruments ("HKFRS 9") on 1 April 2018. The movement in the allowance for impairment of trade receivables during each reporting period is as follows:

	Six months ended 30 September 2019 HK\$'000 (unaudited)	Year ended 31 March 2019 HK\$'000 (audited)
At beginning of the period/year	296	–
Provision of the expected credit loss for the period/year	186	296
At the end of the period/year	482	296

At 30 September 2019, the management had recognised a provision of expected credit loss of trade receivables of approximately HK\$482,000 (31 March 2019: HK\$296,000), and there was no reversal of expected credit loss provided in the reporting period (year ended 31 March 2019: nil).

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.

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

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Within 1 month	34,865	40,290
More than 1 month but not more than 3 months	37,030	49,480
More than 3 months but not more than 6 months	1,543	4,675
More than 6 months but not more than a year	1,095	857
More than a year	2,762	4,964
	<u>77,295</u>	<u>100,266</u>

12. SHARE CAPITAL

	Number	Amount HK\$'000 (unaudited)
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31 March 2019, 1 April 2019 and 30 September 2019	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 31 March 2019, 1 April 2019 and 30 September 2019	<u>800,000,000</u>	<u>8,000</u>

13. RELATED PARTY TRANSACTIONS

(a) Related party transactions

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

Related parties	Nature of transactions	Six months ended 30 September	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
ServiceOne Limited (notes (i) & (ii))	Cost of sales-Outsourcing IT support services	1,760	969
ServiceOne Limited (notes (i) & (ii))	Sales	116	210
ServiceOne Limited (notes (i) & (ii))	Maintenance services	24	24
ServiceOne Technology Services Macau Limited (notes (ii) & (iii))	Cost of sales-Outsourcing IT support services	78	78

Notes:

- (i) Mr. Chu Siu Sum Alex (“Mr. Chu”) 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 a director of ServiceOne Technology Services Macau Limited, is also a director of the Company.

(b) Compensation of key management personnel

Total remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 September	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Salaries, allowances and benefits in kind	4,525	4,128
Discretionary bonuses	445	314
Retirement scheme contributions	54	62
	<u>5,024</u>	<u>4,504</u>

14. COMMITMENTS

Operating lease commitments — Group as lessee

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

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Not later than one year	–	2,296
Later than one year and not later than five years	–	3,476
	<u>–</u>	<u>5,772</u>

The Group is the lessee in respect of a number of properties held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 April 2019 to recognise lease liabilities relating to these leases. From 1 April 2019 onwards, future lease payments are recognised as lease liabilities in the unaudited condensed consolidated statement of financial position in accordance with the policies set out in Note 3.

15. SHARE OPTION SCHEME

The share option scheme (the “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. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by Directors to each grantee, which period may commence on the date upon which the offer of the grant of options is made but shall end in any event not later than 10 years for the date of grant of the option subject to the provisions for early termination thereof.

The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to the Group. The Directors consider the Scheme will enable the Company to reward our employees, the Directors and other selected participants for their contributions to the Group.

The valuation was carried out on a fair value basis. Under HKFRS 2 Share-Based Payment (“HKFRS 2”) defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.”.

Share-based payment transaction is a transaction in which the entity (a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement, or (b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

Pursuant to the HKFRS 2, the goods or services received shall be measured with the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the fair value of the goods or services received cannot be estimated reliably, their value shall be measured, indirectly, by reference to the fair value of the equity instruments granted with the corresponding increase in equity. Since the fair value of goods or services received from grantees of the options including employees, consultants, advisors and service providers of the Group cannot be reliably measured, the fair value of the share options granted to the above grantees are used as the reference of the fair value of the goods or services received.

The fair value of equity-settled share options granted during the current period was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the share options were granted. The following table lists the inputs to the model used:

Measurement date	15 April 2019
Dividend yield (%)	–
Expected volatility (%)	166.22
Risk-free interest rate (%)	1.63

The risk-free rate is the yield of Hong Kong government bonds with maturity matching the contractual option life of the share options obtained from Bloomberg as at the measurement date. The historical volatility of the Company's share of 166.22% is adopted as the expected volatility and reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

On 15 April 2019 (the "Date of Grant"), the Company granted share options to the Directors and employees of the Company to subscribe for a total of 16,000,000 ordinary shares of HK\$0.01 each in the share capital of the Company under the Scheme. The details of the movements in the number of share options under the Scheme for the period ended 30 September 2019 are set out as follows:

Name of Grantee	Date of Grant	Exercisable period	Exercise price per share (HK\$)	Outstanding as at 1 April 2019	Number of share options			Outstanding as at 30 September 2019
					Granted during the period	Exercised during the period	Lapsed/cancelled during the period	
Executive Directors								
Mr. Lau Wai Kwok ("Mr. Lau")	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	2,000,000	–	–	2,000,000
Ms. Lau Tsz Yan ("Ms. Lau")	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	2,000,000	–	–	2,000,000
Mr. So Cheuk Wah Benton ("Mr. So")	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	2,000,000	–	–	2,000,000
Non-executive Directors								
Mr. Wong	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	500,000	–	–	500,000
Mr. Chu	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	500,000	–	–	500,000
Mr. Chan Kin Mei Stanley ("Mr. Chan")	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	500,000	–	–	500,000
Independent non-executive Directors								
Mr. Au Yu Chiu Steven ("Mr. Au")	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	100,000	–	–	100,000
Mr. Chung Fuk Wing Danny ("Mr. Chung")	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	100,000	–	–	100,000
Mr. Ko Man Fu ("Mr. Ko")	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	100,000	–	–	100,000
Mr. Mak Wai Sing ("Mr. Mak")	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	100,000	–	–	100,000
Other employees								
In aggregate	15-Apr-19	15 April 2020 to 14 April 2029	0.111	–	8,100,000	–	(100,000)	8,000,000
					16,000,000	–	(100,000)	15,900,000

The outstanding share options granted on the Date of Grant are exercisable in the manner and during the five periods (each an “exercisable period”) as set out below at an exercise price of HK\$0.111 per Share. The closing price of the Shares immediately before the Date of Grant of share options was HK\$0.098.

First exercisable period:	20.0% of the outstanding share options exercisable from 15 April 2020 to 14 April 2029
Second exercisable period:	20.0% of the outstanding share options exercisable from 15 April 2021 to 14 April 2029
Third exercisable period:	20.0% of the outstanding share options exercisable from 15 April 2022 to 14 April 2029
Fourth exercisable period:	20.0% of the outstanding share options exercisable from 15 April 2023 to 14 April 2029
Fifth exercisable period:	20.0% of the outstanding share options exercisable from 15 April 2024 to 14 April 2029

The expense recognized in the unaudited condensed consolidated statement of comprehensive income for employee services received during the six months ended 30 September 2019 is approximately HK\$305,000 (2018: nil).

At the end of the reporting period, the Company had 15,900,000 share options outstanding under the Scheme, of which all share options were unvested. At the date of approval of these unaudited condensed consolidated financial statements, the Company had 15,900,000 share options outstanding under the Scheme, which represented approximately 2.0% of the Shares in issue as at that date.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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 2019 ("Interim FY2020") as compared to the last corresponding period ended 30 September 2018 ("Interim FY2019"), the Group recorded a revenue increase of approximately 15.8% and our gross profit increased by approximately 9.7%.

Business in the Private Sector

The Group's revenue in the private sector increased by approximately 5.9% from approximately HK\$96.7 million, representing 51.0% of our total revenue, for Interim FY2019 to approximately HK\$102.3 million, representing 46.7% of our total revenue, for Interim FY2020.

The Group's gross profit in the private sector for Interim FY2020 amounted to approximately HK\$15.0 million, representing 54.2% of our total gross profit and an increase of approximately HK\$1.6 million, or approximately 11.7%, as compared to that of Interim FY2019 of approximately HK\$13.4 million, which represented 53.3% of our total gross profit in Interim FY2019. Our gross profit margin of this sector in Interim FY2020 was approximately 14.6%, representing an increase of 0.7 percentage point as compared to that of Interim FY2019 of approximately 13.9%.

We consider that the increase in revenue from the private sector was primarily due to the increase in demand for IT infrastructure solutions from our customers in the private sector for the period and the increase in gross profit margin from the private sector was the result of our efforts in obtaining more favourable terms from our suppliers.

Business in the Public Sector

The Group's revenue in the public sector increased by approximately 26.1% from approximately HK\$92.7 million, representing 49.0% of our total revenue, for Interim FY2019 to approximately HK\$117.0 million, representing 53.3% of our total revenue, for Interim FY2020.

The Group's gross profit in the public sector for Interim FY2020 amounted to approximately HK\$12.6 million, representing 45.8% of our total gross profit and an increase of approximately HK\$0.8 million, or approximately 7.4%, as compared to that of Interim FY2019 of approximately HK\$11.8 million, which represented 46.7% of our total gross profit in Interim FY2019. Our gross profit margin of this sector for Interim FY2020 was approximately 10.8%, representing a decrease of 1.9 percentage points as compared to that of Interim FY2019 of approximately 12.7%.

We consider that the increase in revenue 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. As we deployed a more competitive pricing strategy to increase our overall market share, our profit margin from the public sector was reduced.

Outlook

Moving forward, our Group has been focusing on the following three business opportunities which are enabling us to grow our business continuously besides providing the existing IT infrastructure solutions to the market.

- (1) Multi Cloud and Hybrid Cloud
- (2) Container Technology
- (3) Cyber Security

In order to capitalise the above mentioned opportunities, we are not only continuously strengthening our strategic relationship with our suppliers, but also enhancing our specialised technical expertise and domain knowhow on the latest and proven infrastructure solutions. We also strive to develop an even more diversified customer base across private and public sectors.

While our Group has been focusing on the core IT infrastructure solutions business with continual growth, we will explore any appropriate merger and acquisition opportunities for the enhancement of our enterprise value. This will only be carried out in cautious manner and has to be for the benefit of our Group and the shareholders' best interest.

Our Group believes that more and more enterprises and institutions are going to adopt digital transformation with the purpose not only to enhance their operation efficiency, but also create their own digital business models, which means to digitalize the business or make the business through online in their own ways. However, the Group's performance is likely to be affected by the negative business sentiment due to the recent protests in Hong Kong and the uncertain global economy due to the US-China trade dispute and Brexit. We consider that might have negative impacts on our business volume and exert pressure on our pricing terms and hence on our profit margin and profitability. In conclusion, 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 at strategically developing 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, so as to enable our enterprise and institution customers to extract maximum value from their IT engagements.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately 15.8% from approximately HK\$189.4 million for Interim FY2019 to approximately HK\$219.3 million for Interim FY2020, which was primarily attributable to the increase in demand from our customers for IT infrastructure solutions in Interim FY2020 as compared to Interim FY2019.

Gross profit and gross profit margin

For Interim FY2020, our gross profit amounted to approximately HK\$27.6 million, representing an increase of approximately HK\$2.4 million, or approximately 9.7%, as compared to that of Interim FY2019 of approximately HK\$25.2 million. The Group's gross profit margin for Interim FY2020 was approximately 12.6%, representing a slight decrease of approximately 0.7 percentage point as compared to that of Interim FY2019 of approximately 13.3%. The decrease in the Group's gross profit margin was mainly because the Group proactively deployed more competitive pricing strategy to increase our overall market share.

Other income and gains

Other income and gains increased by approximately HK\$0.2 million, or approximately 88.1%, from approximately HK\$0.3 million for Interim FY2019 to approximately HK\$0.5 million for Interim FY2020. The increase was mainly due to higher interest income and sundry income for the period.

Selling expenses

For Interim FY2020, the Group's selling expenses amounted to approximately HK\$16.2 million, representing an increase of approximately HK\$1.8 million (or approximately 12.6%) as compared to Interim FY2019 of approximately HK\$14.4 million. Such increase was mainly attributed by the increase in our staff cost.

Administrative expenses

The Group's administrative expenses for Interim FY2020 were approximately HK\$5.6 million, representing an increase of approximately HK\$0.1 million (or approximately 1.5%) from approximately HK\$5.5 million for Interim FY2019. The increase was primarily due to net effect of (i) the increase in staff costs of approximately HK\$0.2 million; (ii) the increase in repair and maintenance expenses of approximately HK\$0.1 million; (iii) the decrease in exchange loss of approximately HK\$0.1 million; and (iv) the decrease in legal and professional fees of approximately HK\$0.1 million.

Expected credit loss on financial assets

The Group has applied the simplified approach to trade receivables to provide for expected credit losses prescribed by HKFRS 9 since 1 April 2018. During Interim FY2020, impairment loss on financial assets of approximately HK\$0.2 million was charged (Interim FY2019: nil).

Finance cost

Finance costs represented interest expenses arisen from lease liabilities of approximately HK\$0.2 million for Interim FY2020 (Interim FY2019: nil) as a result of adoption of the new accounting policy — HKFRS 16 starting from 1 April 2019.

Income tax expense

The Group's income tax expense for Interim FY2020 was approximately HK\$1.0 million, representing an increase of approximately 5.3% from approximately HK\$0.9 million for Interim FY2019. The effective tax rate for Interim FY2020 was approximately 16.5% which was comparable to that of 16.7% for Interim FY2019.

Profit attributable to owners of the Company

The profit attributable to owners of the Company increased by approximately 7.2% from approximately HK\$4.6 million for Interim FY2019 to approximately HK\$4.9 million for Interim FY2020, which was primarily attributable to the above mentioned effects.

Earnings per share

Basic and diluted earnings per share for profit attributable to owners of the Company for Interim FY2020 amounted to approximately HK0.61 cent, representing an increase of approximately HK0.04 cent (or approximately 7.2%) as compared to approximately HK0.57 cent in Interim FY2019.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operations primarily through cash generated from our operating activities. During Interim FY2020, we did not have any bank borrowings. As at 30 September 2019, we had cash and cash equivalents of approximately HK\$55.4 million (31 March 2019: approximately HK\$99.1 million), which were cash at banks and in hand.

The banking facility granted to the Group as at 30 September 2019 amounted to HK\$10.8 million (31 March 2019: HK\$10.8 million), of which HK\$10.8 million was unutilised (31 March 2019: HK\$10.8 million).

The Group's gearing ratio, which is calculated by total debt (defined as bank borrowings and other debts incurred not in the ordinary course of business) divided by total equity, was nil as at 30 September 2019 (31 March 2019: nil).

Going forward, we will use our capital for our operations and the expansion plans as stated in the Company's prospectus dated 30 March 2016 (the "Prospectus") and the Company's announcement dated 17 January 2018 regarding the change of use of proceeds from the placing ("Announcement").

CAPITAL STRUCTURE

As at 30 September 2019, the capital structure of our Company comprised issued share capital and reserves.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During Interim FY2020, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

SIGNIFICANT INVESTMENTS

As at 30 September 2019, the Group did not hold any significant investments.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2019 (31 March 2019: 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 FY2020, 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\$. During Interim FY2020, 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 FY2020 and Interim FY2019.

CHARGE ON GROUP'S ASSETS

As at 30 September 2019, the Group had no charges on its assets (31 March 2019: nil).

INFORMATION ON EMPLOYEES

As at 30 September 2019, the Group had 86 employees (31 March 2019: 77) 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 FY2020 amounted to approximately HK\$18.7 million (Interim FY2019: HK\$16.6 million).

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2019 (Interim FY2019: nil).

OTHER INFORMATION

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

As at 30 September 2019, 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 positions in ordinary shares of the Company:

Name of Director/ chief executive	Name of Group member/ associated corporation	Nature of interest	Total number of shares	Approximate percentage of the Company's issued share capital
Mr. Chu	the Company	Beneficial owner	226,890,000	28.4%
Mr. Lau	the Company	Beneficial owner	100,000,000	12.5%
Mr. Wong	the Company	Beneficial owner	51,300,000	6.4%
Mr. Chan	the Company	Beneficial owner	6,720,000	0.8%

Long positions in share options of the Company:

Name of Director/chief executive	Number of share options directly beneficially owned
Mr. Lau	2,000,000
Ms. Lau	2,000,000
Mr. So	2,000,000
Mr. Chu	500,000
Mr. Wong	500,000
Mr. Chan	500,000
Mr. Au	100,000
Mr. Chung	100,000
Mr. Ko	100,000
Mr. Mak	100,000

Save as disclosed above, as at 30 September 2019, 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.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save for the grant of share options on 15 April 2019 as disclosed under the paragraph headed "Share Option Scheme" below, at no time during the reporting period were rights to acquire benefits by means of the acquisition of shares or debentures of the Company granted to any Director or their respective associates, or were any such rights exercised by them; or was the Company, or any of the Company's subsidiaries a party to any arrangement to enable the Directors or their respective associates to acquire such rights in any other body corporate.

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

As at 30 September 2019, so far as the Directors are aware, other than a Director or 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, directly or indirectly, are interested in 5.0% or more of the issued voting shares of any member of the Group:

Long positions in shares of the Company:

Name of shareholder	Nature of interest	Total number of shares and share options held	Approximate percentage of the Company's issued share capital
Mr. Mok Chu Leung Terry ("Mr. Mok")	Beneficial owner	91,800,000	11.5%
Mr. Cheung Nap Kai ("Mr. Cheung")	Beneficial owner	89,760,000	11.2%
Ms. Luk Yuen Wah Nancy	Interest of spouse	227,390,000 <i>(note 1)</i>	28.4%
Ms. Keung Lai Wa Dorathy Linndia	Interest of spouse	102,000,000 <i>(note 2)</i>	12.8%
Ms. Yan Yihong	Interest of spouse	91,800,000 <i>(note 3)</i>	11.5%
Ms. Tuen Chi Keung	Interest of spouse	89,760,000 <i>(note 4)</i>	11.2%
Ms. Lee Kit Ling Monita	Interest of spouse	51,800,000 <i>(note 5)</i>	6.5%

Notes:

1. 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.
2. 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.
3. 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.
4. 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.
5. 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 as at 30 September 2019 which were required to be recorded pursuant to section 336 of the SFO.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in Note 15 to these unaudited condensed consolidated financial statements.

USE OF PROCEEDS FROM LISTING

The net proceeds from the listing of the Company's shares (after deducting the underwriting fees and related expenses) amounted to approximately HK\$32.2 million.

On 17 January 2018, the Company announced that the Group has proposed to reallocate (i) approximately HK\$3.4 million originally intended for strengthening the Group's marketing efforts; and (ii) approximately HK\$3.6 million originally intended for enhancing the management information systems of the Group, to the expansion of the Group's IT infrastructure solutions business (the "Reallocation").

Details of the original allocation, the Reallocation and the utilisation of the net proceeds from the placing up to 30 September 2019 are set out below:

Uses	Original allocation (note)	After Reallocation	Utilised up to 30 September 2019	Balance as at 30 September 2019
	HK\$ (in million)	HK\$ (in million)	HK\$ (in million)	HK\$ (in million)
(i) Expansion and training of sales, technical and support workforce	6.8	6.8	6.8	–
(ii) Expansion of IT infrastructure solutions business	11.0	18.0	18.0	–
(iii) Strengthening of marketing efforts	6.0	2.6	2.6	–
(iv) Enhancement of management information systems	5.5	1.9	1.5	0.4
(v) Working capital and general corporate purposes	2.9	2.9	2.9	–
Total	<u>32.2</u>	<u>32.2</u>	<u>31.8</u>	<u>0.4</u>

Note: Details of the original allocation of the net proceeds from the placing are set out in the Company's Prospectus.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during Interim FY2020.

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 Interim FY2020.

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. After making specific enquiry of all the Directors, the Company was not aware of any non-compliance with the required standard of dealings regarding securities transactions by the Directors during Interim FY2020.

CHANGE IN INFORMATION OF DIRECTORS

During Interim FY2020, Mr. Au, an independent non-executive Director of the Company, has retired as an executive director of finance and administration of Matilda International Hospital.

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 during Interim FY2020, save for the deviation from such code disclosed below.

Pursuant to code provision F.1.1 of the 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 senior finance manager 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.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2019 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 2019

As at the date of this announcement, 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. 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