



EXPERT

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

First Quarterly Report  
2018/19



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

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

*This report will remain on the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk), the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for a minimum period of 7 days from the date of publication. This report will also be published and remains on the Company’s website at [www.expertsystems.com.hk](http://www.expertsystems.com.hk).*

The board of Directors (the “Board”) of the Company announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 30 June 2018, together with the unaudited comparative figures for the corresponding period in 2017 as follows:

## Condensed Consolidated Statement of Comprehensive Income

For the three months ended 30 June 2018

	Notes	Three months ended 30 June	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	4	90,381	72,297
Cost of sales		(77,758)	(63,230)
Gross profit		12,623	9,067
Other income and gains	4	51	240
Selling expenses		(7,299)	(5,829)
Administrative expenses		(2,734)	(2,613)
Profit before income tax expense		2,641	865
Income tax expense	5	(442)	(148)
Profit and total comprehensive income for the period		2,199	717
Earnings per share — Basic and diluted	7	HK0.27 cent	HK0.09 cent

# Condensed Consolidated Statement of Changes in Equity

For the three months ended 30 June 2018

	Share capital HK\$'000 (unaudited)	Share premium HK\$'000 (unaudited)	Merger reserve HK\$'000 (unaudited)	Retained earnings HK\$'000 (unaudited)	Total equity HK\$'000 (unaudited)
At 1 April 2018	8,000	70,179	(25,395)	32,170	84,954
Profit and total comprehensive income for the period	-	-	-	2,199	2,199
At 30 June 2018	8,000	70,179	(25,395)	34,369	87,153
At 1 April 2017	8,000	70,179	(25,395)	25,281	78,065
Profit and total comprehensive income for the period	-	-	-	717	717
At 30 June 2017	8,000	70,179	(25,395)	25,998	78,782

# Notes to the Unaudited Condensed Consolidated Financial Information

For the three months ended 30 June 2018

## 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”) were 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 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 first 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 2018.

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 2018 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 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.

	Three months ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Hong Kong	90,150	71,420
Macau	231	877
	<b>90,381</b>	<b>72,297</b>

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% 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 leases.

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

	Three months ended 30 June	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue:		
Provision of IT infrastructure solutions	90,314	72,245
Finance leases	67	52
Total	<b>90,381</b>	<b>72,297</b>
Other income and gains:		
Interest income	35	144
Sundry income	16	96
Total	<b>51</b>	<b>240</b>

## 5. INCOME TAX EXPENSE

	Three months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax		
— Hong Kong profits tax	442	148

Hong Kong profits tax is calculated at 16.5% (2017: 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 is not subject to any taxation under the jurisdictions of Cayman Islands during the reporting period (2017: 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 (2017: Nil).

## 6. DIVIDENDS

No dividends were paid or declared by the Company or any of the subsidiaries during the reporting period (2017: Nil).

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the period attributable to the owners of the Company of HK\$2,199,000 (2017: HK\$717,000), and the weighted average number of 800,000,000 (2017: 800,000,000) ordinary shares in issue during the reporting period.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the reporting periods.

# 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 three months ended 30 June 2018 ("Q1 FY2019") as compared to the last corresponding period ended 30 June 2017 ("Q1 FY2018"), the Group recorded a revenue increase of approximately 25.0% and our gross profit increased by approximately 39.2%.

### Business in the Private Sector

The Group's revenue in the private sector increased by approximately 52.7% from approximately HK\$30.5 million, representing 42.1% of our total revenue, for Q1 FY2018 to approximately HK\$46.5 million, representing 51.5% of our total revenue, for Q1 FY2019.

The Group's gross profit in the private sector for Q1 FY2019 amounted to approximately HK\$6.9 million, representing 54.8% of our total gross profit and an increase of approximately HK\$2.0 million, or approximately 42.7%, as compared to that of Q1 FY2018 of approximately HK\$4.9 million, which represented 53.4% of our total gross profit in Q1 FY2018. Our gross profit margin of this sector in Q1 FY2019 was approximately 14.9%, representing a decrease of 1.0 percentage point as compared to that of Q1 FY2018 of approximately 15.9%.

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. As we deployed a more competitive pricing strategy to increase our overall market share, our gross profit margin from the private sector was slightly reduced.

## Business in the Public Sector

The Group's revenue in the public sector increased by approximately 4.8% from approximately HK\$41.8 million, representing 57.9% of our total revenue, for Q1 FY2018 to approximately HK\$43.9 million, representing 48.5% of our total revenue, for Q1 FY2019.

The Group's gross profit in the public sector for Q1 FY2019 amounted to approximately HK\$5.7 million, representing 45.2% of our total gross profit and an increase of approximately HK\$1.5 million, or approximately 35.2%, as compared to that of Q1 FY2018 of approximately HK\$4.2 million, which represented 46.6% of our total gross profit in Q1 FY2018. Our gross profit margin of this sector for Q1 FY2019 was approximately 13.0%, representing an increase of 2.9 percentage points as compared to that of Q1 FY2018 of approximately 10.1%.

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 and the increase in gross profit margin from the public sector was the result of our efforts in obtaining more favourable terms from our suppliers.

## Outlook

The Group anticipates that the market conditions remain uncertain due to upward tendency of Hong Kong interest rate and risk of potential global trade war. We consider that such economic outlook might have negative impact on our business volume and exert pressure on our pricing terms and hence on our profit margin and profitability. In view of the uncertain business environment, the Group will be cautious in managing the business risk; prepare to respond to the changes in such economic and business environment, and aim to strategically develop the Group's business to mitigate the said impacts. The Group will continue to focus on its core businesses and provide innovative and integrated IT infrastructure solutions to customers in both private and public sectors, to enable its enterprise and institution customers to extract maximum value from their IT engagements.

## FINANCIAL REVIEW

### Revenue

The Group's revenue increased by approximately 25.0% from approximately HK\$72.3 million for Q1 FY2018 to approximately HK\$90.4 million for Q1 FY2019, which was primarily attributable to the increase in demand from our customers in the private sector for IT infrastructure solutions in Q1 FY2019 as compared to Q1 FY2018.

## Gross profit and gross profit margin

For Q1 FY2019, our gross profit amounted to approximately HK\$12.6 million, representing an increase of approximately HK\$3.6 million, or approximately 39.2%, as compared to that of Q1 FY2018 of approximately HK\$9.1 million.

The Group's gross profit margin for Q1 FY2019 was approximately 14.0%, representing an increase of approximately 1.5 percentage points as compared to that of Q1 FY2018 of approximately 12.5%. The increase in the Group's gross profit margin was the result of our efforts in obtaining more favourable terms from our suppliers.

## Other income and gains

Our other income and gains decreased by approximately HK\$0.1 million, or approximately 78.8%, from approximately HK\$0.2 million for Q1 FY2018 to approximately HK\$0.1 million for Q1 FY2019. The decrease was mainly due to the lower interest income and sundry income for the period.

## Selling expenses

For Q1 FY2019, our selling expenses amounted to approximately HK\$7.3 million, representing an increase of approximately HK\$1.5 million (or approximately 25.2%) as compared to Q1 FY2018 of approximately HK\$5.8 million. Such increase was mainly attributed to the increase in our staff cost.

## Administrative expenses

The Group's administrative expenses for Q1 FY2019 amounted to approximately HK\$2.7 million, representing an increase of approximately HK\$0.1 million (or approximately 4.7%) as compared to Q1 FY2018 of approximately HK\$2.6 million. Such increase was mainly attributed to the increase in our staff cost and exchange loss.

## Income tax expense

The Group's income tax expense for Q1 FY2019 was approximately HK\$0.4 million, representing an increase of approximately 198.6% from approximately HK\$0.1 million for Q1 FY2018. The effective tax rate for Q1 FY2019 was 16.7% which was comparable to that of 17.1% for Q1 FY2018.

## Profit attributable to owners of the Company

The profit attributable to owners of the Company increased by approximately 206.6% from approximately HK\$0.7 million for Q1 FY2018 to approximately HK\$2.2 million for Q1 FY2019, which was primarily attributable to the abovementioned effects.

## OTHER INFORMATION

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

As at 30 June 2018, 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	226,890,000	28.4%
Mr. Lau Wai Kwok ("Mr. Lau")	the Company	Beneficial owner	100,000,000	12.5%
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 30 June 2018.

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

As at 30 June 2018, 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 position

Name of shareholders	Nature of interest	Total number of Shares	Approximate percentage of shareholding
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	226,890,000 (note 1)	28.4%
Ms. Keung Lai Wa Dorathy Linndia	Interest of spouse	100,000,000 (note 2)	12.5%
Ms. Yan Yihong	Interest of spouse	91,800,000 (note 3)	11.5%
Ms. Tuen Chi Keung	Interest of spouse	89,760,000 (note 4)	11.2%
Ms. Lee Kit Ling Monita	Interest of spouse	51,300,000 (note 5)	6.4%

Notes:

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

Saved as disclosed above, the Directors were not aware of any other persons other than the Directors or chief executive of the Company who held an interest or short positions in the shares and underlying shares of the Company which required to be recorded pursuant to section 336 of the SFO as at 30 June 2018.

## USE OF PROCEEDS

The Shares were listed on GEM on 12 April 2016 by way of placing (the “Placing”). The net proceeds from the Placing received by the Company after deducting the underwriting fees and related expenses in connection with the Placing 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 June 2018 are set out below:

Uses	Original allocation (Note) HK\$ (in million)	After Reallocation HK\$ (in million)	Utilised up to 30 June 2018 HK\$ (in million)	Balance as at 30 June 2018 HK\$ (in million)
(i) Expansion and training of sales, technical and support workforce	6.8	6.8	4.4	2.4
(ii) Expansion of IT infrastructure solutions business	11.0	18.0	17.7	0.3
(iii) Strengthening of marketing efforts	6.0	2.6	1.3	1.3
(iv) Enhancement of management information systems	5.5	1.9	0.9	1.0
(v) Working capital and general corporate purposes	2.9	2.9	2.9	–
<b>Total</b>	<b>32.2</b>	<b>32.2</b>	<b>27.2</b>	<b>5.0</b>

Note: Details of the original allocation of the net proceeds from the Placing are set out in the prospectus of the Company dated 30 March 2016 (the “Prospectus”).

## SHARE OPTION SCHEME OF THE COMPANY

The share option scheme was conditionally approved and adopted pursuant to a resolution in writing passed by the shareholders of the Company on 15 March 2016, which became effective on the Listing Date. A summary of the principal terms of the share option scheme is set out in Appendix IV to the Prospectus. No share option was granted, exercised, expired or lapsed during the reporting period and there was no outstanding share option under the scheme as at 30 June 2018.

## 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 Q1 FY2019.

## 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 Q1 FY2019.

## INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, Ballas Capital Limited, save for the compliance adviser agreement dated 7 March 2017 entered into between the Company and Ballas Capital Limited, none of Ballas Capital Limited, its directors, employees and close associates had any interest in the securities of the Group which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules as at 30 June 2018.

## 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 Q1 FY2019.

## AUDIT COMMITTEE

The audit committee of the Company has reviewed the results of the Group for Q1 FY2019 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 August 2018

*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. 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