



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

Interim Report
2018/19



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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, 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 report will also be published and remains on the Company’s website at www.expertsystems.com.hk.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman and non-executive Director

Mr. Wong Chu Kee Daniel

Chief executive officer and executive Director

Mr. Lau Wai Kwok

Executive Directors

Ms. Lau Tsz Yan

Mr. So Cheuk Wah Benton

Non-executive Directors

Mr. Chu Siu Sum Alex

Mr. Chan Kin Mei Stanley

Independent non-executive Directors

Mr. Au Yu Chiu Steven

Mr. Chung Fuk Wing Danny

Mr. Ko Man Fu

Mr. Mak Wai Sing

BOARD COMMITTEES

Audit Committee

Mr. Au Yu Chiu Steven (*Chairman*)

Mr. Chan Kin Mei Stanley

Mr. Chung Fuk Wing Danny

Mr. Ko Man Fu

Mr. Mak Wai Sing

Remuneration Committee

Mr. Ko Man Fu (*Chairman*)

Mr. Au Yu Chiu Steven

Mr. Chung Fuk Wing Danny

Mr. Mak Wai Sing

Mr. Wong Chu Kee Daniel

Nomination Committee

Mr. Chung Fuk Wing Danny (*Chairman*)

Mr. Au Yu Chiu Steven

Mr. Ko Man Fu

Mr. Lau Wai Kwok

Mr. Mak Wai Sing

Corporate Governance Committee

Mr. Chan Kin Mei Stanley (*Chairman*)

Mr. Au Yu Chiu Steven

Mr. Lau Wai Kwok

Mr. Wong Chu Kee Daniel

AUDITOR

BDO Limited

Certified Public Accountants

25th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

Tricor Services (Cayman Islands) Limited

P. O. Box 10008

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Cricket Square

Grand Cayman KY1-1001

Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 22

Hopewell Centre

183 Queen's Road East

Hong Kong

COMPANY SECRETARY

Mr. Lau Siu Ki

AUTHORISED REPRESENTATIVES

Mr. Chan Kin Mei Stanley
Mr. Lau Wai Kwok

COMPLIANCE OFFICER

Mr. Lau Wai Kwok

REGISTERED OFFICE

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Cricket Square
Grand Cayman KY1-1001
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PRINCIPAL BANKER

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GEM STOCK CODE

8319

COMPANY WEBSITE

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 2018, together with the unaudited comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2018

	Notes	Six months ended 30 September	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	5	189,413	143,806
Cost of sales		(164,242)	(125,536)
Gross profit		25,171	18,270
Other income and gains	5	268	464
Selling expenses		(14,432)	(11,851)
Administrative expenses		(5,525)	(5,292)
Profit before income tax expense		5,482	1,591
Income tax expense	6	(917)	(271)
Profit and total comprehensive income for the period		4,565	1,320
Earnings per share			
— Basic and diluted	8	HK0.57 cent	HK0.17 cent

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Notes	30 September 2018 HK\$'000 (unaudited)	31 March 2018 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		1,793	2,103
Finance lease receivables	9	306	616
Prepayments		4,514	–
Trade receivables	10	5,935	4,549
		12,548	7,268
Current assets			
Inventories		4,603	5,068
Trade receivables	10	89,663	69,776
Prepayments, deposits and other receivables		7,129	5,012
Finance lease receivables	9	610	738
Cash and cash equivalents		60,864	96,032
		162,869	176,626
Current liabilities			
Trade payables	11	75,241	82,650
Accruals, deposits received and other payables		9,156	15,452
Amount due to a related company		299	216
Tax payables		646	66
		85,342	98,384
Net current assets		77,527	78,242
Total assets less current liabilities		90,075	85,510
Non-current liabilities			
Other payables		556	556
Net assets		89,519	84,954
Equity			
Share capital	12	8,000	8,000
Reserves		81,519	76,954
		89,519	84,954

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
At 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)	8,000	70,179	(25,395)	36,735	89,519
At 1 April 2017 (audited)	8,000	70,179	(25,395)	25,281	78,065
Profit and total comprehensive income for the period	-	-	-	1,320	1,320
At 30 September 2017 (unaudited)	8,000	70,179	(25,395)	26,601	79,385

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018	2017
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	(35,267)	(23,952)
Net cash generated from investing activities	99	2,179
Net decrease in cash and cash equivalents	(35,168)	(21,773)
Cash and cash equivalents at beginning of period	96,032	103,280
Cash and cash equivalents at end of period	60,864	81,507

Notes to the Unaudited Condensed Consolidated Financial Statements

For the six months ended 30 September 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”) 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 2018 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable 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 2018 except for the new and revised HKFRSs and interpretations issued by the HKICPA that are first effective for the current reporting period of the Company.

These unaudited condensed consolidated financial statements have been prepared under the historical cost basis. These 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 HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

(a) Adoption of new/revised HKFRSs — effective 1 April 2018

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)

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

(a) Adoption of new/revised HKFRSs — effective 1 April 2018 (Continued)

The Group applies HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the initial adoption of HKFRS 15 (if any) would be recognised in retained earnings as of 1 April 2018 and that comparative was not be restated. There is no change in the timing of revenue recognition i.e. the Group will continue to recognise revenue at a point of time when the goods and services are delivered. As such, no adjustment was required to the Group’s retained earnings as at 1 April 2018. A contract liability represents the Group’s obligation to transfer goods to a customer for which the Group has received consideration from the customer. In this regard, cash or bank acceptance notes collected from certain customers before product delivery is recognised as contract liabilities.

The Group concluded HKFRS 9 has no material impact on the classification and measurement of its financial assets and has no significant impact on the impairment assessment of its financial assets. The Group did not restate comparative and no transition adjustment against the opening balance of equity at 1 April 2018 was made.

(b) New/revised HKFRSs that have been issued but are not yet effective

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessees accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees. However, the standard does not significantly change the accounting of lessors.

As at 30 September 2018, the Group had non-cancellable operating lease commitments of approximately HK\$6,862,000 as disclosed in Note 14. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

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 2018.

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	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Hong Kong	188,656	141,406
Macau	757	2,400
	189,413	143,806

Information about major customers

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

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	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue:		
Provision of IT infrastructure solutions	189,280	143,701
Finance leases	133	105
Total	189,413	143,806
Other income and gains:		
Interest income	217	353
Sundry income	51	111
Total	268	464

6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Current tax		
— Hong Kong profits tax	917	271

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).

7. DIVIDENDS

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

8. 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\$4,565,000 (2017: HK\$1,320,000), 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.

9. FINANCE LEASE RECEIVABLES

	30 September	31 March
	2018 HK\$'000 (unaudited)	2018 HK\$'000 (audited)
Current finance lease receivables	610	738
Non-current finance lease receivables	306	616
	916	1,354

Leasing arrangements

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

Amounts receivables under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	30 September 2018 HK\$'000 (unaudited)	31 March 2018 HK\$'000 (audited)	30 September 2018 HK\$'000 (unaudited)	31 March 2018 HK\$'000 (audited)
Not later than one year	837	1,015	610	738
Later than one year and not later than five years	482	904	306	616
	1,319	1,919	916	1,354
Less: unearned finance income	(403)	(565)	-	-
Present value of minimum lease payments receivables	916	1,354	916	1,354

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 not impaired.

10. TRADE RECEIVABLES

	30 September 2018 HK\$'000 (unaudited)	31 March 2018 HK\$'000 (audited)
Trade receivables, net	95,598	74,325
Less: non-current portion	(5,935)	(4,549)
	89,663	69,776

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 2018 HK\$'000 (unaudited)	31 March 2018 HK\$'000 (audited)
Within 1 month	30,017	30,567
More than 1 month but not more than 3 months	34,276	32,171
More than 3 months but not more than 6 months	15,232	7,160
More than 6 months but not more than a year	13,622	2,716
More than a year	2,451	1,711
	95,598	74,325

The movement in the allowance for impairment of trade receivables during each reporting period is as follows:

	Six months ended 30 September 2018 HK\$'000 (unaudited)	Year ended 31 March 2018 HK\$'000 (audited)
At beginning of the period/year	–	1
Bad debt written off	–	(1)
At the end of the period/year	–	–

At 30 September 2018, the management had determined a provision of impairment loss of trade receivables was nil (31 March 2018: nil), and there was no reversal of impairment loss provided in the period ended 30 September 2018 (31 March 2018: 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 2018 HK\$'000 (unaudited)	31 March 2018 HK\$'000 (audited)
Within 1 month	34,217	36,373
More than 1 month but not more than 3 months	34,558	41,160
More than 3 months but not more than 6 months	1,663	2,120
More than 6 months but not more than a year	2,732	1,314
More than a year	2,071	1,683
	<u>75,241</u>	<u>82,650</u>

12. SHARE CAPITAL

	Number	Amount HK\$'000 (unaudited)
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Ordinary shares of HK\$0.01 each

Authorised:

At 31 March 2018, 1 April 2018 and 30 September 2018	<u>10,000,000,000</u>	<u>100,000</u>
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Issued and fully paid:

At 31 March 2018, 1 April 2018 and 30 September 2018	<u>800,000,000</u>	<u>8,000</u>
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13. RELATED PARTY TRANSACTIONS

(a) Related party transactions

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

Related parties	Nature of transactions	Six months ended 30 September	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
ServiceOne Limited (note (i) & (ii))	Cost of sales — Outsourcing IT support services	969	991
ServiceOne Limited (note (i) & (ii))	Sales	210	58
ServiceOne Limited (note (i) & (ii))	Maintenance services	24	24
ServiceOne Technology Services Macau Limited (note (ii) & (iii))	Cost of sales — Outsourcing IT support services	78	78

Notes:

- (i) Mr. Chu Siu Sum Alex and Mr. Wong Chu Kee Daniel (“Mr. Wong”) being directors of ServiceOne Limited, are also the directors of the Company.
- (ii) The controlling shareholders of the Company are also the ultimate shareholders of ServiceOne Limited and ServiceOne Technology Services Macau Limited.
- (iii) Mr. Wong being 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	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Fees, salaries and staff welfare benefits and discretionary bonus	4,442	3,567
Defined contribution plans	62	62
	4,504	3,629

14. COMMITMENTS

Operating lease commitments — Group as lessee

The Group leased its warehouse and office property under operating lease arrangements which were negotiated for terms from 3 to 4 years.

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

	30 September 2018 HK\$'000 (unaudited)	31 March 2018 HK\$'000 (audited)
Not later than one year	2,284	1,772
Later than one year and not later than five years	4,578	3,027
	<u>6,862</u>	<u>4,799</u>

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 2018 ("Interim FY2019") as compared to the last corresponding period ended 30 September 2017 ("Interim FY2018"), the Group recorded a revenue increase of approximately 31.7% and our gross profit increased by approximately 37.8%.

Business in the Private Sector

The Group's revenue in the private sector increased by approximately 49.6% from approximately HK\$64.6 million, representing 45.0% of our total revenue, for Interim FY2018 to approximately HK\$96.7 million, representing 51.0% of our total revenue, for Interim FY2019.

The Group's gross profit in the private sector for Interim FY2019 amounted to approximately HK\$13.4 million, representing 53.3% of our total gross profit and an increase of approximately HK\$3.4 million, or approximately 34.0%, as compared to that of Interim FY2018 of approximately HK\$10.0 million, which represented 54.8% of our total gross profit in Interim FY2018. Our gross profit margin of this sector in Interim FY2019 was approximately 13.9%, representing a decrease of 1.6 percentage points as compared to that of Interim FY2018 of approximately 15.5%.

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 profit margin from the private sector was reduced.

Business in the Public Sector

The Group's revenue in the public sector increased by approximately 17.1% from approximately HK\$79.2 million, representing 55.0% of our total revenue, for Interim FY2018 to approximately HK\$92.7 million, representing 49.0% of our total revenue, for Interim FY2019.



The Group's gross profit in the public sector for Interim FY2019 amounted to approximately HK\$11.8 million, representing 46.7% of our total gross profit and an increase of approximately HK\$3.5 million, or approximately 42.4%, as compared to that of Interim FY2018 of approximately HK\$8.3 million, which represented 45.2% of our total gross profit in Interim FY2018. Our gross profit margin of this sector for Interim FY2019 was approximately 12.7%, representing an increase of 2.3 percentage points as compared to that of Interim FY2018 of approximately 10.4%.

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 US-China 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 31.7% from approximately HK\$143.8 million for Interim FY2018 to approximately HK\$189.4 million for Interim FY2019, which was primarily attributable to the increase in demand from our customers for IT infrastructure solutions in Interim FY2019 as compared to Interim FY2018.

Gross profit and gross profit margin

For Interim FY2019, our gross profit amounted to approximately HK\$25.2 million, representing an increase of approximately HK\$6.9 million, or approximately 37.8%, as compared to that of Interim FY2018 of approximately HK\$18.3 million.

The Group's gross profit margin for Interim FY2019 was approximately 13.3%, representing a slight increase of approximately 0.6 percentage point as compared to that of Interim FY2018 of approximately 12.7%. 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

Other income and gains decreased by approximately HK\$0.2 million, or approximately 42.2%, from approximately HK\$0.5 million for Interim FY2018 to approximately HK\$0.3 million for Interim FY2019. The decrease was mainly due to the lower interest income and sundry income for the period.

Selling expenses

For Interim FY2019, the Group's selling expenses amounted to approximately HK\$14.4 million, representing an increase of approximately HK\$2.5 million (or approximately 21.8%) as compared to Interim FY2018 of approximately HK\$11.9 million. Such increase was mainly attributed by the increase in our staff cost.

Administrative expenses

The Group's administrative expenses for Interim FY2019 were approximately HK\$5.5 million, representing an increase of approximately HK\$0.2 million (or approximately 4.4%) from approximately HK\$5.3 million for Interim FY2018. The increase was primarily due to net effect of (i) the increase in staff costs of approximately HK\$0.3 million; (ii) the increase in depreciation expenses of approximately HK\$0.2 million; (iii) the increase in exchange loss of approximately HK\$0.1 million; and (iv) the decrease in rent and rates for office and warehouse of approximately HK\$0.4 million.

Income tax expense

The Group's income tax expense for Interim FY2019 was approximately HK\$0.9 million, representing an increase of approximately 238.4% from approximately HK\$0.3 million for Interim FY2018. The effective tax rate for Interim FY2019 was approximately 16.7% which was comparable to that of 17.0% for Interim FY2018.

Profit attributable to owners of the Company

The profit attributable to owners of the Company increased by approximately 245.8% from approximately HK\$1.3 million for Interim FY2018 to approximately HK\$4.6 million for Interim FY2019, which was primarily attributable to the above mentioned effects.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operations primarily through cash generated from our operating activities. During Interim FY2019, we did not have any bank borrowings. As at 30 September 2018, we had cash and cash equivalents of approximately HK\$60.9 million (31 March 2018: approximately HK\$96.0 million), which were cash at banks and in hand.

The banking facility granted to the Group as at 30 September 2018 amounted to HK\$10.8 million (31 March 2018: HK\$10.8 million), of which HK\$10.8 million was unutilised (31 March 2018: 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 2018.

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 2018, the capital structure of our Company comprised issued share capital and reserves.

COMMITMENTS

Our contract commitments mainly involve leases of office and warehouse properties. As at 30 September 2018, the Group's operating lease commitments were approximately HK\$6.9 million (31 March 2018: approximately HK\$4.8 million).

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 FY2019, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

SIGNIFICANT INVESTMENTS

As at 30 September 2018, the Group did not hold any significant investments.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 30 September 2018 (31 March 2018: 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 FY2019, 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 FY2019, 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 FY2019 and Interim FY2018.

CHARGE ON GROUP'S ASSETS

As at 30 September 2018, the Group had no charges on its assets (31 March 2018: Nil).

INFORMATION ON EMPLOYEES

As at 30 September 2018, the Group had 85 employees (31 March 2018: 79) 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 FY2019 amounted to approximately HK\$16.6 million (Interim FY2018: HK\$13.8 million).

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 September 2018 (Interim FY2018: nil).

Other Information

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

As at 30 September 2018, the interests and short positions of the Directors and chief executive 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 executive of the Company had any interests or short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules as at 30 September 2018.

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

As at 30 September 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 executive's 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 Dorothy 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 Dorothy Linndia, the spouse of Mr. Lau, is deemed to be interested in all the Shares in which Mr. Lau is interested by virtue of the SFO.
- Ms. Yan Yihong, the spouse of Mr. Mok, is deemed to be interested in all the Shares in which Mr. Mok is interested by virtue of the SFO.
- Ms. Tuen Chi Keung, the spouse of Mr. Cheung, is deemed to be interested in all the Shares in which Mr. Cheung is interested by virtue of the SFO.
- Ms. Lee Kit Ling Monita, the spouse of Mr. Wong, is deemed to be interested in all the Shares in which Mr. Wong is interested by virtue of the SFO.

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

COMPARISON OF BUSINESS OBJECTIVE WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group’s business plan as set out in the Prospectus and Announcement with actual business progress from the latest practicable date (as defined in the Prospectus) up to 30 September 2018.

Business Objectives up to 30 September 2018	Actual business progress up to 30 September 2018
Expanding and training of sales, technical and support workforce	<ul style="list-style-type: none"> • Recruited totally 17 suitable candidates as our sales and supporting staff; and • Provided internal and external continuous professional development programmes to sales and technical staff regularly.
Expansion of IT infrastructure solutions business	<ul style="list-style-type: none"> • Explored and secured IT infrastructure solutions projects, particularly large scale and long-term projects to expand the Group’s IT infrastructure solutions business.
Enhancement of management information systems	<ul style="list-style-type: none"> • Evaluated and partly upgraded the existing management information systems.
Strengthening of marketing efforts	<ul style="list-style-type: none"> • Participated in industry exhibitions; • Organised seminars and workshops for customers and other business partners; • Organised client relation events; • Advertised in public electronic media; and • Implemented the plan for upgrading our demonstration facilities.

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 2018 are set out below:

Uses	Original allocation (note) HK\$ (in million)	After Reallocation HK\$ (in million)	Utilised up to 30 September 2018 HK\$ (in million)	Balance as at 30 September 2018 HK\$ (in million)
(i) Expansion and training of sales, technical and support workforce	6.8	6.8	6.2	0.6
(ii) Expansion of IT infrastructure solutions business	11.0	18.0	18.0	–
(iii) Strengthening of marketing efforts	6.0	2.6	1.7	0.9
(iv) Enhancement of management information systems	5.5	1.9	1.1	0.8
(v) Working capital and general corporate purposes	2.9	2.9	2.9	–
Total	32.2	32.2	29.9	2.3

Note: Details of the original allocation of the net proceeds from the placing are set out in 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 September 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 Interim 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 Interim FY2019.

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 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 September 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 Interim FY2019.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the results of the Group for the six months ended 30 September 2018 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, 7 November 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