



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

2019/20

Third Quarterly Report

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 main board. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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

This report will remain on the Stock Exchange’s website at www.hkexnews.hk, the GEM website at www.hkgem.com on the “Latest Company Announcements” page for 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.

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 and the nine months ended 31 December 2019, together with the unaudited comparative figures for the corresponding periods in 2018 as follows:

Condensed Consolidated Statement of Comprehensive Income

For the three months and the nine months ended 31 December 2019

	Notes	Three months ended 31 December		Nine months ended 31 December	
		2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Revenue	5	119,636	104,040	338,966	293,453
Cost of sales		(105,250)	(91,435)	(296,972)	(255,677)
Gross profit		14,386	12,605	41,994	37,776
Other income and gains	5	296	173	800	441
Selling expenses		(8,773)	(7,051)	(25,017)	(21,483)
Administrative expenses		(2,931)	(2,796)	(8,540)	(8,321)
Expected credit loss on financial assets		(20)	(307)	(206)	(307)
Finance cost		(100)	–	(313)	–
Profit before income tax expense		2,858	2,624	8,718	8,106
Income tax expense	6	(478)	(439)	(1,444)	(1,356)
Profit and total comprehensive income for the period		2,380	2,185	7,274	6,750
Earnings per share — Basic and diluted	8	HK0.30 cent	HK0.27 cent	HK0.91 cent	HK0.84 cent

Condensed Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2019

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Share option reserve HK\$'000	Retained earnings HK\$'000	Total equity HK\$'000
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	–	–	–	–	7,274	7,274
Recognition of equity-settled share-based payment	–	–	–	458	–	458
Dividend approved and paid in respect of the previous year (note 7)	–	(3,360)	–	–	–	(3,360)
At 31 December 2019 (unaudited)	8,000	66,819	(25,395)	458	50,060	99,942
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	–	–	–	–	6,750	6,750
At 31 December 2018 (unaudited)	8,000	70,179	(25,395)	–	38,920	91,704

Notes to the Unaudited Condensed Consolidated Financial Statements

For the nine months ended 31 December 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 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 PRESENTATION

The unaudited condensed consolidated financial statements of the Group for the nine months ended 31 December 2019 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 and the applicable disclosures required by the GEM Listing Rules. The principal accounting policies used in the 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 HKFRSs 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

The adoption of the following new and revised HKFRSs has had no significant effect on these unaudited condensed consolidated financial statements for the nine months ended 31 December 2019 and there have been no significant changes to the accounting policies applied in these unaudited condensed consolidated financial statements for the nine months ended 31 December 2019.

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes

The Group has not applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of such new and revised standards, amendments or interpretations to the Group but is yet to be in a position to state whether they would have any material financial impact on the Group's results of operations and financial position.

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.

	Three months ended		Nine months ended	
	31 December 2019	2018	31 December 2019	2018
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Hong Kong	118,961	103,771	333,409	292,427
Macau	675	269	5,557	1,026
	119,636	104,040	338,966	293,453

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: a single customer who contributed to 10.7%).

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:

	Three months ended 31 December		Nine months ended 31 December	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Revenue:				
Provision of IT infrastructure solutions	119,593	103,975	338,804	293,255
Finance lease	43	65	162	198
Total	119,636	104,040	338,966	293,453
Other income and gains:				
Interest income	173	173	542	390
Exchange gain, net	37	–	42	–
Sundry income	86	–	216	51
Total	296	173	800	441

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

	31 December 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Receivables	130,504	99,483
Contract liabilities	(6,332)	(5,572)

6. INCOME TAX EXPENSE

	Three months ended		Nine months ended	
	31 December 2019	2018	31 December 2019	2018
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Current tax — Hong Kong profits tax	478	439	1,444	1,356

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, approved by the shareholders at the annual general meeting of the Company on 10 September 2019 and paid on 3 October 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 nine months ended 31 December 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\$7,274,000 (2018: HK\$6,750,000) 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 adjusted by assuming conversion of all dilutive potential ordinary shares.

No adjustment has been made to the basic earnings per share amount presented for the nine months ended 31 December 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.

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 nine months ended 31 December 2019 ("Q3 FY2020") as compared to the corresponding period ended 31 December 2018 ("Q3 FY2019"), the Group recorded a revenue increase of approximately 15.5% and our gross profit increased by approximately 11.2%.

Business in the Private Sector

The Group's revenue in the private sector increased by approximately 8.1% from approximately HK\$152.4 million, representing 51.9% of our total revenue, for Q3 FY2019 to approximately HK\$164.8 million, representing 48.6% of our total revenue, for Q3 FY2020.

The Group's gross profit in the private sector for Q3 FY2020 amounted to approximately HK\$23.1 million, representing 55.0% of our total gross profit and an increase of approximately HK\$2.9 million, or approximately 14.4%, as compared to that of Q3 FY2019 of approximately HK\$20.2 million, which represented 53.4% of our total gross profit in Q3 FY2019. Our gross profit margin of this sector in Q3 FY2020 was approximately 14.0%, representing an increase of 0.8 percentage point as compared to that of Q3 FY2019 of approximately 13.2%.

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 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 23.5% from approximately HK\$141.1 million, representing 48.1% of our total revenue, for Q3 FY2019 to approximately HK\$174.2 million, representing 51.4% of our total revenue, for Q3 FY2020.

The Group's gross profit in the public sector for Q3 FY2020 amounted to approximately HK\$18.9 million, representing 45.0% of our total gross profit and an increase of approximately HK\$1.3 million, or approximately 7.4%, as compared to that of Q3 FY2019 of approximately HK\$17.6 million, which represented 46.6% of our total gross profit in Q3 FY2019. Our gross profit margin of this sector for Q3 FY2020 was approximately 10.9%, representing a decrease of 1.6 percentage points as compared to that of Q3 FY2019 of approximately 12.5%.

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 decrease in gross profit margin from the public sector was mainly because the Group proactively deployed more competitive pricing strategy to increase our market share.

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 outbreak of the coronavirus in Mainland China, Hong Kong, Macau and Taiwan and other countries, the social activities 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 15.5% from approximately HK\$293.5 million for Q3 FY2019 to approximately HK\$339.0 million for Q3 FY2020, which was primarily attributable to the increase in demand from our customers in both private and public sectors for IT infrastructure solutions in Q3 FY2020 as compared to Q3 FY2019.

Gross profit and gross profit margin

For Q3 FY2020, our gross profit amounted to approximately HK\$42.0 million, representing an increase of approximately HK\$4.2 million, or approximately 11.2%, as compared to that of Q3 FY2019 of approximately HK\$37.8 million.

The Group's gross profit margin for Q3 FY2020 was approximately 12.4%, representing a slight decrease of approximately 0.5 percentage point as compared to that of Q3 FY2019 of approximately 12.9%. The decrease in the Group's gross profit margin was mainly because the Group deployed more competitive pricing strategy in the public sector to increase our overall market share.

Other income and gains

Our other income and gains increased by approximately HK\$0.4 million, or approximately 81.4%, from approximately HK\$0.4 million for Q3 FY2019 to approximately HK\$0.8 million for Q3 FY2020. The increase was mainly due to the increase in sundry income and interest income for the period.

Selling expenses

For Q3 FY2020, our selling expenses amounted to approximately HK\$25.0 million, representing an increase of approximately HK\$3.5 million (or approximately 16.5%) as compared to Q3 FY2019 of approximately HK\$21.5 million. Such increase was mainly attributed to the increase in our staff cost.

Administrative expenses

The Group's administrative expenses for Q3 FY2020 were approximately HK\$8.5 million, representing an increase of approximately HK\$0.2 million (or approximately 2.6%) from approximately HK\$8.3 million for Q3 FY2019. 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 repair and maintenance expenses of approximately HK\$0.1 million; (iii) the increase in impairment loss of inventory of approximately HK\$0.1 million; (iv) the decrease in legal and professional fees of approximately HK\$0.2 million; and (v) the decrease in exchange loss 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. For Q3 FY2020, impairment loss on financial assets of approximately HK\$0.2 million was charged (Q3 FY2019: HK\$0.3 million).

Finance cost

Finance costs represented interest expenses arisen from lease liabilities of approximately HK\$0.3 million for Q3 FY2020 (Q3 FY2019: nil) as a result of adoption of the new accounting standard — HKFRS 16 starting from 1 April 2019.

Income tax expense

The Group's income tax expense for Q3 FY2020 was approximately HK\$1.5 million, representing an increase of approximately HK\$0.1 million (or approximately 6.5%) from approximately HK\$1.4 million for Q3 FY2019. The effective tax rate for Q3 FY2020 was 16.6% which was comparable to that of 16.7% for Q3 FY2019.

Profit attributable to owners of the Company

The profit attributable to owners of the Company amounted to approximately HK\$7.3 million for Q3 FY2020, representing an increase of approximately HK\$0.5 million (or approximately 7.8%) as compared with that of approximately HK\$6.8 million for Q3 FY2019, which was primarily attributable to the abovementioned effects.

Earnings per share

Basic and diluted earnings per share for Q3 FY2020 amounted to approximately HK0.91 cent, representing an increase of approximately HK0.07 cent (or approximately 7.8%) as compared to approximately HK0.84 cent in Q3 FY2019.

OTHER INFORMATION

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

As at 31 December 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 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 ("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 Tsz Yan ("Ms. Lau")	2,000,000
Mr. So Cheuk Wah Benton ("Mr. So")	2,000,000
Mr. Chu	500,000
Mr. Wong	500,000
Mr. Chan	500,000
Mr. Au Yu Chiu Steven ("Mr. Au")	100,000
Mr. Chung Fuk Wing Danny ("Mr. Chung")	100,000
Mr. Ko Man Fu ("Mr. Ko")	100,000
Mr. Mak Wai Sing ("Mr. Mak")	100,000

Save as disclosed above, as at 31 December 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 31 December 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 (note 1)	28.4%
Ms. Keung Lai Wa Dorathy Linndia	Interest of spouse	102,000,000 (note 2)	12.8%
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	51,800,000 (note 5)	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 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.
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 31 December 2019 which were required to be recorded pursuant to section 336 of the SFO.

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 nine months ended 31 December 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 31 December 2019
					Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	
Executive Directors								
Mr. Lau	15 April 2019	15 April 2020 to 14 April 2029	0.111	-	2,000,000	-	-	2,000,000
Ms. Lau	15 April 2019	15 April 2020 to 14 April 2029	0.111	-	2,000,000	-	-	2,000,000
Mr. So	15 April 2019	15 April 2020 to 14 April 2029	0.111	-	2,000,000	-	-	2,000,000
Non-executive Directors								
Mr. Wong	15 April 2019	15 April 2020 to 14 April 2029	0.111	-	500,000	-	-	500,000
Mr. Chu	15 April 2019	15 April 2020 to 14 April 2029	0.111	-	500,000	-	-	500,000
Mr. Chan	15 April 2019	15 April 2020 to 14 April 2029	0.111	-	500,000	-	-	500,000
Independent non-executive Directors								
Mr. Au	15 April 2019	15 April 2020 to 14 April 2029	0.111	-	100,000	-	-	100,000
Mr. Chung	15 April 2019	15 April 2020 to 14 April 2029	0.111	-	100,000	-	-	100,000
Mr. Ko	15 April 2019	15 April 2020 to 14 April 2029	0.111	-	100,000	-	-	100,000
Mr. Mak	15 April 2019	15 April 2020 to 14 April 2029	0.111	-	100,000	-	-	100,000
Other employees								
In aggregate	15 April 2019	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 share options granted exercisable from 15 April 2020 to 14 April 2029
Second exercisable period:	20.0% of the share options granted exercisable from 15 April 2021 to 14 April 2029
Third exercisable period:	20.0% of the share options granted exercisable from 15 April 2022 to 14 April 2029
Fourth exercisable period:	20.0% of the share options granted exercisable from 15 April 2023 to 14 April 2029
Fifth exercisable period:	20.0% of the share options granted 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 nine months ended 31 December 2019 is approximately HK\$458,000 (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.

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 31 December 2019 are set out below:

Uses	Original allocation (note) HK\$ (in million)	After Reallocation HK\$ (in million)	Utilised up to 31 December 2019 HK\$ (in million)	Balance as at 31 December 2019 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	1.6	0.3
(v) Working capital and general corporate purposes	2.9	2.9	2.9	-
Total	32.2	32.2	31.9	0.3

Note: Details of the original allocation of the net proceeds from the placing are set out in the Company's prospectus dated 30 March 2016.

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 Q3 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 Q3 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 Q3 FY2020.

CHANGE IN INFORMATION OF DIRECTORS

During Q3 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 Q3 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 nine months ended 31 December 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, 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 February 2020

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