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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2018

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

This announcement will remain on the Stock Exchange's website at www.hkexnews.hk, the GEM website at www.hkgem.com on the "Latest Company Announcements" page for at least seven days from the date of its posting. This announcement will also be published and remains on the Company's website at www.expertsystems.com.hk.

HIGHLIGHTS

- Revenue for the year ended 31 March 2018 ("**FY2018**") increased to HK$337.2 million by 10.0% from that for the year ended 31 March 2017 ("**FY2017**"), among which, revenue from private sector decreased by 3.8% to HK$153.0 million, and revenue from public sector increased by 25.0% to HK$184.2 million.
- Gross profit for FY2018 increased slightly to HK$43.2 million by 1.5% from FY2017, and gross profit margin for FY2018 decreased to 12.8% from 13.9% in FY2017.
- Reported net profit for FY2018: HK$6.9 million.
- Reported earnings per share for FY2018: HK0.86 cent.

ANNUAL RESULTS

The board of Directors (the "**Board**") of Expert Systems Holdings Limited is pleased to announce the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 March 2018, together with comparative audited figures for the preceding financial year, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Year ended 31 March 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Revenue	*5*	**337,223**	306,453
Cost of sales		**(293,974)**	(263,832)
Gross profit		**43,249**	42,621
Other income and gains	*5*	**934**	616
Selling expenses		**(25,360)**	(23,879)
Administrative expenses		**(10,890)**	(11,016)
Profit before income tax expense	*6*	**7,933**	8,342
Income tax expense	*7*	**(1,044)**	(1,355)
Profit and total comprehensive income for the year		**6,889**	6,987
Earnings per share — Basic and diluted	*9*	**HK0.86 cent**	HK0.88 cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**2,103**	433
Finance lease receivables		**616**	824
Prepayments	*11*	**–**	356
Trade receivables	*10*	**4,549**	–
		7,268	1,613
Current assets			
Inventories		**5,068**	1,850
Trade receivables	*10*	**69,776**	47,524
Prepayments, deposits and other receivables	*11*	**5,012**	2,792
Finance lease receivables		**738**	643
Tax recoverable		**–**	247
Pledged bank deposits		**–**	2,100
Cash and cash equivalents		**96,032**	103,280
		176,626	158,436
Current liabilities			
Trade payables	*12*	**82,650**	68,418
Accruals, deposits received and other payables	*13*	**15,452**	12,851
Amount due to a related company		**216**	159
Tax payables		**66**	–
		98,384	81,428
Net current assets		**78,242**	77,008
Total assets less current liabilities		**85,510**	78,621
Non-current liabilities			
Other payables	*13*	**556**	556
Net assets		**84,954**	78,065
EQUITY			
Share capital	*14*	**8,000**	8,000
Reserves		**76,954**	70,065
		84,954	78,065

NOTES

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 are listed on the GEM of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 12 April 2016. 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

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("**HKASs**") issued by the Hong Kong Institute of Certified Public Accountants and Interpretations (hereinafter collectively referred to as the "**HKFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis.

(c) Functional and presentation currency

The 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.

3. ADOPTION OF HKFRSs

(a) Adoption of new/revised HKFRSs — effective 1 April 2017

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has no impact on these financial statements as the Group has no liabilities arising from financing activities during the financial year.

Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of these amendments has no impact on the Group's financial statements.

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

The Group has not early applied the following new/revised HKFRSs that have been issued, potentially relevant to the Group's operations, but are not yet effective, in preparing the Group's financial statements.

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Revenue from Contracts with Customers (Clarifications to HKFRS 15)*[1]
HKFRS 16	*Leases*[2]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019

HKFRS 9 — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("**FVTOCI**") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("**FVTPL**").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The directors of the Company have reviewed the Group's financial assets as at 31 March 2018 and anticipated that the application of HKFRS 9 in the future may result in early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised cost.

HKFRS 15 — Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The directors of the Company anticipated that the application of HKFRS 15 in the future may result in more disclosures. However, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

Amendments to HKFRS 15 — Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16 — Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 March 2018, the Group had non-cancellable operating lease commitments of approximately HK$4,799,000. A preliminary assessment indicated that these arrangement will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-to-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.

HK(IFRIC)-Int 23 — Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Except as discussed above, the directors of the Company anticipate that the application of the other new and amendments to HKFRSs and interpretations will have no material impact on the financial statements of the Group in the future.

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 income.

Geographical information

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

	2018	2017
	HK$'000	*HK$'000*
Hong Kong	**329,942**	297,178
Macau	**7,281**	9,275
	337,223	306,453

During the year, 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 year.

5. REVENUE AND OTHER INCOME AND GAINS

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

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

	2018	2017
	HK$'000	*HK$'000*
Revenue:		
Provision of IT infrastructure solutions	**336,964**	306,397
Finance leases income	**259**	56
Total	**337,223**	306,453
Other income and gains:		
Interest income	**635**	336
Write back of other payables	**171**	28
Exchange gains, net	**–**	97
Sundry income	**128**	155
Total	**934**	616

6. PROFIT BEFORE INCOME TAX EXPENSE

The Group's profit before income tax expense is arrived at after charging/(crediting):

	2018	2017
	HK$'000	*HK$'000*
Costs of inventories recognised as expenses	**257,939**	224,586
Auditor's remuneration	**590**	570
Depreciation of property, plant and equipment	**610**	349
Provision of impairment loss of trade receivables	**–**	1
Staff costs (including directors' remuneration)		
— Wages, salaries and other benefits	**28,335**	26,694
— Contribution to defined contribution pension plans	**1,013**	986
Exchange losses/(gains), net	**60**	(97)
Operating lease rental expenses	**2,228**	2,236

7. INCOME TAX EXPENSE

The income tax expense in the consolidated statement of comprehensive income represents:

	2018	2017
	HK$'000	*HK$'000*
Current tax — Hong Kong profits tax		
Tax for the year	**1,076**	1,357
Over-provision in respect of prior year	**(32)**	(2)
Income tax expense	**1,044**	1,355

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. 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 year ended 31 March 2018 (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 year ended 31 March 2018 (2017: Nil).

The income tax expense for the year can be reconciled to the profit before income tax expense in the consolidated statement of comprehensive income as follows:

	2018	2017
	HK$'000	*HK$'000*
Profit before income tax expense	**7,933**	8,342
Tax calculated at the statutory rate of 16.5%	**1,309**	1,376
Effect of different tax rates in other jurisdiction	**(21)**	4
Tax effect of expenses not deductible for tax purpose	**1**	1
Tax effect of revenue not taxable for tax purpose	**(108)**	(55)
Tax effect of temporary differences not recognised	**(85)**	12
Tax effect of tax loss not recognised	**–**	8
Over-provision in respect of prior years	**(32)**	(2)
Others	**(20)**	11
Income tax expense	**1,044**	1,355

8. DIVIDENDS

No dividends were declared by the Board of the Company for the year ended 31 March 2018 (2017:Nil).

9. EARNINGS PER SHARE

For the year ended 31 March 2018, the calculation of basic earnings per share is based on the profit for the year attributable to the owners of the Company of HK$6,889,000 and on the basis of the weighted average number of 800,000,000 ordinary shares in issue.

For the year ended 31 March 2017, the calculation of basic earnings per share is based on the profit for the year attributable to the owners of the Company of HK$6,987,000 and on the basis of the weighted average number of 793,972,603 ordinary shares in issue.

Diluted earnings per share are same as the basic earnings per share as there are no dilutive potential ordinary shares in existence during the years ended 31 March 2018 and 2017.

10. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables, gross	**74,325**	47,525
Less: Provision for impairment	**–**	(1)
	74,325	47,524
Less: non-current portion	**(4,549)**	–
	69,776	47,524

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:

	2018	2017
	HK$'000	*HK$'000*
Within 1 month	**30,567**	21,398
More than 1 month but not more than 3 months	**32,171**	20,032
More than 3 months but not more than 6 months	**7,160**	3,194
More than 6 months but not more than a year	**2,716**	1,185
More than a year	**1,711**	1,715
	74,325	47,524

At the end of each reporting period, the management review receivables for evidence of impairment on both an individual and collective basis. Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for impairment of trade receivables during each reporting period is as follows:

	2018	2017
	HK$'000	*HK$'000*
At beginning of the year	**1**	–
Provision of impairment loss for the year	**–**	1
Bad debt written off	**(1)**	–
At the end of the year	**–**	1

At 31 March 2018, the management had determined a provision of impairment loss of trade receivables was nil (2017: approximately HK$1,000), and there was no reversal of impairment loss provided in year ended 31 March 2018 (2017: nil).

The Group did not hold any collateral as security or other credit enhancements over the impaired trade receivables.

An ageing analysis of the Group's trade receivables as at the end of each reporting period that are not impaired is as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired (note (a))	**32,976**	17,302
Not more than 3 months past due (note (b))	**32,159**	25,890
3 to 6 months past due (note (b))	**5,791**	1,516
More than 6 months but less than a year past due (note (b))	**1,688**	2,816
More than a year past due (note (b))	**1,711**	–
	74,325	47,524

Notes:

(a) Trade receivables that were neither past due nor impaired relate to certain customers for whom there was no recent history of default.

(b) Trade receivables that were past due but not impaired relate to customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	HK\$'000	*HK\$'000*
Other deposits	**1,705**	1,642
Other receivables	**595**	138
Prepayments	**2,712**	1,368
	5,012	3,148
Less: Non-current prepayments	**–**	(356)
	5,012	2,792

12. TRADE PAYABLES

	2018	2017
	HK\$'000	*HK\$'000*
Trade payables	**82,650**	68,418

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:

	2018	2017
	HK\$'000	*HK\$'000*
Within 1 month	**36,373**	29,747
More than 1 month but not more than 3 months	**41,160**	31,045
More than 3 months but not more than 6 months	**2,120**	6,709
More than 6 months but not more than a year	**1,314**	810
More than a year	**1,683**	107
	82,650	68,418

13. ACCRUALS, DEPOSITS RECEIVED AND OTHER PAYABLES

	2018	2017
	HK\$'000	*HK\$'000*
Other payables and accrued expenses	**3,495**	3,816
Staff commission	**4,292**	3,654
Other deposits received	**823**	646
Customers' deposits received	**7,398**	5,291
	16,008	13,407
Less: Non-current other payables	**(556)**	(556)
	15,452	12,851

14. SHARE CAPITAL

	Number	Amount *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each		
At 31 March 2017, 1 April 2017 and 31 March 2018	10,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 April 2016	10,000,000	100
Capitalisation issue *(note (a))*	590,000,000	5,900
Issuance of new shares by placing *(note (b))*	200,000,000	2,000
At 31 March 2017, 1 April 2017 and 31 March 2018	800,000,000	8,000

Notes:

(a) Pursuant to the resolutions passed by the shareholders of the Company on 15 March 2016, conditional on the share premium account of the Company being credited as a result of the issue of the shares by the Company pursuant to the placing as mentioned below, a total 590,000,000 ordinary shares were issued to the shareholders of the Company on a pro-rata basis by way of capitalising an amount of HK$5,900,000 from the share premium account of the Company on 12 April 2016.

(b) On 12 April 2016, the Company issued 200,000,000 ordinary shares pursuant to the Company's listing on the GEM of the Stock Exchange by way of placing at a price of HK$0.25 per share.

MANAGEMENT DISCUSSION AND ANALYSIS

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 year ended 31 March 2018 ("**FY2018**") as compared to the last corresponding year ("**FY2017**"), the Group recorded a revenue increase of approximately 10.0% and our gross profit increased by approximately 1.5%.

Business in the Private Sector

The Group's revenue in the private sector decreased by approximately 3.8% from approximately HK$159.1 million, representing 51.9% of our total revenue, for FY2017 to approximately HK$153.0 million, representing 45.4% of our total revenue, for FY2018.

The Group's gross profit in the private sector for FY2018 amounted to approximately HK$23.3 million, representing 54.0% of our total gross profit and an increase of approximately HK$0.5 million, or approximately 2.6%, as compared to that of FY2017 of approximately HK$22.8 million, representing 53.6% of our total gross profit. Moreover our gross profit margin in FY2018 was approximately 15.3%, representing an increase of 1.0 percentage point as compared to that of FY2017 of approximately 14.3%.

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

Business in the Public Sector

The Group's revenue in the public sector increased by approximately 25.0% from approximately HK$147.4 million, representing 48.1% of our total revenue, for FY2017 to approximately HK$184.2 million, representing 54.6% of our total revenue, for FY2018.

The Group's gross profit in the public sector for FY2018 amounted to approximately HK$19.9 million, representing 46.0% of our total gross profit and an increase of approximately HK$0.1 million, or approximately 0.2%, as compared to that of FY2017 of approximately HK$19.8 million, representing 46.4% of our total gross profit. Our gross profit margin for FY2018 was approximately 10.8%, representing a decrease of 2.7 percentage points as compared to that of FY2017 of approximately 13.5%.

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. As we deployed more competitive pricing strategy to maintain our market share, our gross profit margin from the public sector was reduced.

OUTLOOK AND PROSPECTS

Moving forward, our Group believes that more and more enterprises and institutions are going to adopt digital transformation in order not only to enhance their operation efficiency, but also to create their own digital business models, which means to make business digitally or online in their own ways. Therefore our Group has been focusing on the following business opportunities which are enabling us to grow our business continuously by providing the IT infrastructure solutions to the market.

(1) Multi Cloud and Hybrid Cloud

Our Group believes that the IT infrastructure in most of enterprises and institutions will be in multi and hybrid mode in near future. This means any workload can be shifted online to and fro between on-premises and cloud or between cloud and cloud. Where workload is placed suitably depends on different requirements or situations, say a workload under peak days can be placed in cloud manually or automatically during the days in order to give throughput to the workload to cater the short-term high demand. The local presence of key worldwide cloud service providers, given that the newly setup data centre located in Hong Kong of Amazon Web Services will likely be operating by the end of this year, will substantially drive the adoption of the solutions.

(2) Digital Workspace

We learn that the market demands new end-user computing platforms under the mobile-cloud era, securely delivering anytime, anywhere access to all kinds of applications such as legacy, web and cloud, services and resources across all heterogeneous devices. The technology maturity and Windows 10 upgrade will significantly drive the adoption of the solutions.

(3) Information Security

The latest worldwide outbreak of ransomware well alerted enterprises and institutions the importance of information security. We believe that the enterprises and institutions would increase their expenditure on the overall information security infrastructure, not only advanced threat protection for ransomware, but others like anti-virus, anti-spam, firewall and etc.

In order to capitalise the above mentioned opportunities, we are continuously strengthening our strategic relationship with our suppliers; our domain of specialised technical expertise on the latest and proven infrastructure solutions and a diversified customer base across private and public sectors.

While our Group has been focusing on the core IT infrastructure solutions business with the continual growth, we will explore any appropriate merger and acquisition opportunities for the enhancement of 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.

Last but not the least, we believe 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 might have negative impact 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 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 10.0% from approximately HK$306.5 million for FY2017 to approximately HK$337.2 million for FY2018, which was primarily attributable to the increase in demand from our customers in the public sector for IT infrastructure solutions in FY2018 as compared to FY2017.

As a result, trade receivables increased substantially from approximately HK$47.5 million as at 31 March 2017 to approximately HK$74.3 million as at 31 March 2018. The increase in trade receivables was mainly arising from some large scale IT infrastructure solutions projects in FY2018, in particular in the last quarter of FY2018.

Gross profit and gross profit margin

For FY2018, our gross profit amounted to approximately HK$43.2 million, representing an increase of approximately HK$0.6 million, or approximately 1.5%, as compared to that of FY2017 of approximately HK$42.6 million.

Our gross profit margin in FY2018 was approximately 12.8%, representing a decrease of 1.1 percentage points as compared to that of FY2017 of approximately 13.9%. The decrease in gross profit margin was mainly because the Group proactively deployed more competitive pricing strategy to maintain our market share.

Other income and gains

Our other income increased by approximately HK$0.3 million (or approximately 51.6%) from approximately HK$0.6 million for FY2017 to approximately HK$0.9 million for FY2018. The increase was mainly due to greater amount in write back of other payables and interest income in FY2018.

Selling expenses

For FY2018, our selling expenses amounted to approximately HK$25.4 million, representing an increase of approximately HK$1.5 million (or approximately 6.2%) as compared to FY2017 of approximately HK$23.9 million. Such increase was mainly attributed by the increase in our staff cost.

Administrative expenses

The Group's administrative expenses for FY2018 were approximately HK$10.9 million, representing a slight decrease of approximately 1.1% from approximately HK$11.0 million for FY2017. The decrease was primarily due to the net effect of (i) the increase in staff costs of approximately HK$0.3 million; (ii) the increase in depreciation expenses of approximately HK$0.3 million; (iii) the decrease in legal and professional fees of approximately HK$0.5 million; and (iv) the decrease in repair and maintenance expenses of approximately HK$0.2 million.

Income tax expense

The Group's income tax expense for FY2018 was approximately HK$1.0 million, representing a decrease of approximately 23.0% from approximately HK$1.4 million for FY2017. The decrease in the Group's income tax expense was mainly due to the lower assessable profit after deducting the commercial and building allowances in FY2018.

Profit attributable to owners of the Company

The profit attributable to owners of the Company amounted to approximately HK$6.9 million for FY2018 as compared with that of approximately HK$7.0 million for FY2017, which was primarily attributable to the abovementioned effects.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

We financed our operations primarily through cash generated from our operating activities. During FY2018, we did not have any bank borrowings. As at 31 March 2017 and 2018, we had cash and cash equivalents of approximately HK$103.3 million and HK$96.0 million, respectively, which were cash at banks and in hand. As at 31 March 2018, no bank deposit (31 March 2017: HK$2.1 million was pledged to a bank for banker's guarantee of performance bonds which is one of the requirements for being an approved contractor of the Government for supplying IT products and provision of related services) was pledged and the banking facility granted to the Group amounted to HK$10.8 million (31 March 2017: HK$10.8 million), of which HK$10.8 million was unutilised (31 March 2017: HK$8.7 million).

The Group's gearing ratio, which is calculated by total debt (defined as bank and other debts incurred not in the ordinary course of business) divided by total equity, were nil as at 31 March 2017 and 2018. Going forward, we intend to use our capital for our operations and the expansion plans as stated in the prospectus of the Company dated 30 March 2016 (the "**Prospectus**") and the Company's announcement dated 17 January 2018 Re: Change of use of proceeds.

CAPITAL STRUCTURE

As at 31 March 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 31 March 2018, the Group's operating lease commitments were approximately HK$4.8 million (31 March 2017: approximately HK$4.3 million).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus and the Company's announcement dated 17 January 2018 Re: Change of use of proceeds, the Group did not have other plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

The Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies during FY2018.

SIGNIFICANT INVESTMENTS

As at 31 March 2018, the Group did not hold any significant investments.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 March 2018 (31 March 2017: 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$. During FY2018, the Group's exposure to foreign currency risk primarily arose from certain financial instruments including trade receivables, cash and cash equivalents and held-to-maturity investments which are denominated in MOP and/or US$. During FY2018, 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 FY2018.

CHARGE ON GROUP'S ASSETS

There were no charges on the Group's assets as at 31 March 2018 (31 March 2017: pledged bank deposit of HK$2.1 million).

INFORMATION ON EMPLOYEES

As at 31 March 2018, the Group had 79 employees (31 March 2017: 77) working in Hong Kong. Employees are remunerated according to their performance and work experience. On top of basic salary, commission, discretionary bonus and share option may be granted to eligible staff by reference to the Group's performance as well as individual's performance. The total staff cost (including remuneration of the Directors and mandatory provident funds contributions) for FY2018 amounted to approximately HK$29.3 million (FY2017: HK$27.7 million).

The dedication and hard work of the Group's staff during FY2018 are generally appreciated and recognised.

SHARE OPTION SCHEME

The Company has adopted the share option scheme (the "**Scheme**") on 15 March 2016 which will remain in force for a period of 10 years from the effective date of the Scheme. The purpose of the Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contribution to it. The Directors consider the Scheme, with its broadened basis of participation, will enable the Group to reward the employees, the Directors and other selected participants for their contributions to the Group. The principal terms of the Scheme are summarised in the section headed "Share Option Scheme" in Appendix IV to the Prospectus.

For FY2018, no share option was granted, exercised, expired or lapsed and there was no outstanding share option under the Scheme as at 31 March 2018.

OTHER INFORMATION

Corporate Governance Practice

The Board recognises the importance of good corporate governance in management and internal control procedures so as to achieve accountability. Therefore, the Company is committed to establish and maintain good corporate governance practices and procedures. The Company has adopted the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 15 to GEM Listing Rules and, in the opinion of the Board, the Company has complied with the CG Code for FY2018, save for the deviation from such code disclosed below.

Pursuant to code provision F.1.1 of the CG 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.

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 also 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 for FY2018.

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 the year ended 31 March 2018.

Competing Interests

The Directors are not aware of any business or interest of the Directors nor the controlling shareholders (as defined in the GEM Listing Rules) of the Company nor any of their respective associates (as defined in the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group during FY2018.

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 31 March 2018.

Closure of the Register of Members

For determining the entitlement to attend and vote at the forthcoming annual general meeting (the "**AGM**"), the transfer books and the register of members of the Company will be closed from Tuesday, 18 September 2018 to Friday, 21 September 2018, both days inclusive, during which period no transfer of the Shares will be registered. In order to establish the right to attend and vote at the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, located at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:00 p.m. on Monday, 17 September 2018.

Scope of Work of BDO Limited

The figures in respect of the Group's consolidated statement of comprehensive income, consolidated statement of financial position, and the related notes thereto for FY2018 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

Audit Committee

The Company established the Audit Committee on 15 March 2016 with written terms of reference as suggested under the CG Code which are available on the websites of the Stock Exchange and the Company.

The Audit Committee currently consists of one non-executive Director namely Mr. Chan Kin Mei Stanley and four independent non-executive Directors namely Mr. Au Yu Chiu Steven, Mr. Chung Fuk Wing Danny, Mr. Ko Man Fu and Mr. Mak Wai Sing. The chairman of the Audit Committee is Mr. Au Yu Chiu Steven, who has appropriate professional qualifications and experience in accounting matters.

The consolidated financial statements of the Group for FY2018 have been reviewed by the Audit Committee, which was of the opinion that the consolidated financial statements had been prepared in compliance with the applicable accounting standards and the GEM Listing Rules.

By order of the Board
Expert Systems Holdings Limited
Wong Chu Kee Daniel
Chairman and non-executive Director

Hong Kong, 20 June 2018

As at the date of this announcement, the Board composition is as follows:

Chairman and non-executive Director:
Mr. Wong Chu Kee Daniel

Chief executive officer and executive Director:
Mr. Lau Wai Kwok

Executive Directors:
Ms. Lau Tsz Yan
Mr. So Cheuk Wah Benton

Non-executive Directors:
Mr. Chu Siu Sum Alex
Mr. Chan Kin Mei Stanley

Independent non-executive Directors:
Mr. Au Yu Chiu Steven
Mr. Chung Fuk Wing Danny
Mr. Ko Man Fu
Mr. Mak Wai Sing