A CMMI LEVEL 5 COMPANY

RESPONSES TO QUESTIONS FROM SHAREHOLDERS

The Board of Directors (the "**Board**") of Azeus Systems Holdings Ltd (the "**Company**") refers to:

(a) the annual report of the Company for the financial year ended 31 March 2022 (the "**Annual Report**");

(b) the notice of Annual General Meeting ("**AGM**") issued on 23 June 2022 informing shareholders that the Company's AGM will be convened and held at Sky Ballroom Three, PARKROYAL on Beach Road, 7500 Beach Road, Singapore 199591 and by electronic means on Friday, 15 July 2022 at 10:00 a.m.; and

(c) the accompanying announcement issued by the Company on 23 June 2022 setting out, *inter alia*, the alternative arrangements relating to attendance at the AGM via physical and electronic means.

The Company would like to thank shareholders for submitting their questions in advance of our AGM. Please refer to **Annex A** hereto for the list of questions received from shareholders, and the Management and the Board's responses to these questions.

By order of the Board

Lee Wan Lik
Executive Chairman
8 July 2022

<u>**ANNEX A**</u>

RESPONSES TO SUBSTANTIAL AND RELEVANT QUESTIONS FROM SHAREHOLDERS

Q1. What was the main impetus behind the YoY drop in R&D spending? Did this relate to the Convene AGM development or something else?

- The decline in total Research and Development ("R&D") expenses yoy in FY2022 was largely due to reduction in R&D for the development of ConveneAGM, which was a new product back in FY2021.
- Some of the engineering resources were redeployed for the delivery and implementation of the new IT services contracts secured in FY2022, which is aligned with the growth of Cost of Sales.
- We are committed to growing our R&D and engineering talent pool. The global crunch has made growing the pool much more challenging. In FY2022, Azeus has expanded our new R&D/engineering centres in both Malaysia and India. We will continue to invest in R&D to build up our capacity to realise our product roadmap and to explore new growth areas.

Q2. I noticed the effective tax rate has dropped lower even compared to last year, now in the low single digits. Can you help explain how the effective tax rate is so much lower than Singapore's corporate income tax rate? And perhaps what a normalized effective income tax rate will likely be going forward?

- Our effective tax rate dropped in FY2022 mainly due to a reversal of provision for withholding tax of HK$1,474,000. These withholding tax provisions were made in relation to the intra-group license fees charged within the Group. During the financial year, with advice from tax consultants, the Group believes that there is no present obligation for withholding tax resulting from such transactions, and hence, not necessary to reserve withholding tax provision. The group operates in various countries and will continue to seek both local and international tax expertise to form an effective tax structure.

Q3. I also noticed there was a 3.9M HKD write-off for the impairment of VAT receivables. Was this a non-recurring item perhaps related to entry into a new country and VAT wasn't properly collected at time of billing? Should VAT impairment issues be solved going forward?

- During the financial year, the Philippines Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act has passed into law stricter guidelines and implementation rules on VAT claims, effective from 11 April 2021. The accumulated carrying value of the VAT receivables was carried-forward across from the past 10 years, and as of 31 March 2022, the amount was HK$3.9m. While Management will continue to follow up the past years claim of HK$3.9m with the Philippines Bureau of Internal Revenue, Management has taken into consideration of this new tax reform and considered the possibility of recovering the input VAT to be remote, and hence have decided to write off the amount. Going forward, given the stricter guidelines on VAT claims, the tax credit will not be taken in and hence the VAT impairment would not recur.

Q4. Our product sales growth have slowed down to 20%. Understand we have higher base now, but do we have plans for higher growth again?

- Azeus Product revenue growth was 23% in FY 2022. The Product business line has been the growth engine in the recent years and the company continues to be its primary focus. We aim to continue its growth momentum with a multiple pronged approach. We are investing in sales and marketing. We are expanding into new territories (such as South America) whilst deepening penetration in existing markets. Importantly, we continue to invest in R&D and is actively exploring new product offerings.
- Beyond, the Group is open to synergistic opportunities to invest, particularly, to expand our product range, as well as grow our go-to-market capacities.
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Q5. What are the margin difference between product and services sales?

- We have provided a segmental information on page 87, disclosure notes 31 "segmental information". The segmental results of IT Services and Azeus Products are HK$35.5m and HK$56.7m respectively. The operating margin before those unallocated expenses are 45% and 41% respectively.
- Our IT Services has a comparable operating margin to the Product business segment. Within the IT Services segment is an accumulated portfolio of recurring revenue maintenance projects. For this reporting period, 60% of IT Services revenue is contributed by the maintenance and support services of our past

secured IT Services contracts. It provides the IT Services business with a stable recurring revenue stream.

Q6. Have any of the HK government $1B project been booked in this FY?

- In respect of the new wins announced on 9 May 2022, the Group has been appointed by the Office of the Government Chief Information Officer ("OGCIO") to design and develop its Central Electronic Recordkeeping System (the "System") over a 53-month period as a common service for bureaus and departments of the Hong Kong SAR Government.
- No revenue was booked in the reported financial year ended 31 March 2022. The design and implementation work commenced recently in May 2022, and hence the Group expects majority of the revenue to be contributed from FY2023 until FY2037.
- The total estimated contract value is HK$1.02 billion (US$132.0 million) and will cover the design and development of the System with a total implementation price of HK$633.9 million (US$82.4 million), as well the system's maintenance and support for ten years of HK$381.4 million (US$49.6 million) following its implementation.
- The core of the System is based on Convene Records which is a content and records management product designed and developed by Azeus. An expected 75% of the total estimated contract value (HK$1.02 billion) would be for the license and maintenance fees of the Convene Records software – which is based on the number of users and number of bureaux/departments estimated by the Government as specified in the tender. The actual total contract value will be subject to change by the Government upon its confirmation of these two numbers in the course of the project.

Q7. Since our cashflow is quite evenly spread out in the year, shall we consider giving out interim dividends as well?

- Historically, our dividend payouts have been high with majority of the years at 100% of profit. For the reported year ended 31 March 2022, the Board also recommended 100% payout of the net profit.
- The Group currently does not have a fixed dividend policy and the amount of dividends paid each year will continue to depend on factors such as our financial performance, cash position and future cash needs.