

AZEUS SYSTEMS HOLDINGS LTD.

Unaudited Half Year Financial Statement and Dividend Announcement for the period ended 30 September 2014

Part I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF HALF YEAR RESULTS

1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year

Azeus Systems Holdings Ltd.

1(a)(i) Consolidated Income Statement for the first half year ended 30 September 2014

(Expressed in Hong Kong Dollars)

	<u>The Group</u>		
	1 st Half FY2015	1 st Half FY2014	+ / (-)
	(Apr-Sep 2014)	(Apr-Sep 2013)	
	HK\$'000	HK\$'000	%
Sales	60,587	73,708	(18)
Cost of sales	(41,493)	(48,461)	(14)
	—————	—————	
Gross profit	19,094	25,247	(24)
Other income	138	60	130
Other (losses) / gains - net	(447)	142	(415)
Selling and marketing expenses	(3,951)	(3,377)	17
Administrative and other operating expenses	(12,136)	(10,384)	17
	—————	—————	
Profit before tax	2,698	11,688	(77)
Income tax expense	(370)	(2,800)	(87)
	—————	—————	
Profit attributable to equity holders of the Company	2,328	8,888	(74)
	—————	—————	
Earnings per share (basic and diluted)	0.78 cents	2.96 cents	
	—————	—————	

1(a)(ii) Statement of Comprehensive Income for the first half year ended 30 September 2014

(Expressed in Hong Kong Dollars)

	The Group		
	1 st Half FY2015	1 st Half FY2014	+ / (-)
	(Apr-Sep 2014)	(Apr-Sep 2013)	
	HK\$'000	HK\$'000	%
Profit for the period	2,328	8,888	(74)
Items that may be reclassified subsequently to profit and loss:			
Currency translation differences arising from consolidation – gains/(losses)	144	(228)	(163)
	=====	=====	
	144	(228)	(163)
	=====	=====	
Total comprehensive income attributable to equity holders of the Company	2,472	8,660	(71)
	=====	=====	

1(a)(iii) Note to Income Statement for the first half year ended 30 September 2014

(Expressed in Hong Kong Dollars)

Expenses included in cost of sales, selling and marketing expenses and administrative and other operating expense are analysed as follow.			
	The Group		
	1 st Half FY2015	1 st Half FY2014	+ / (-)
	(Apr-Sep 2014)	(Apr-Sep 2013)	
	HK\$'000	HK\$'000	%
Depreciation of property, plant and equipment	(191)	(183)	4
Legal and professional fee	(1,476)	(1,156)	28
Rental expenses- operating lease	(2,789)	(2,341)	19
Employee benefits expenses (include director remuneration)	(41,534)	(36,993)	12
Hardware and software	(788)	(10,591)	(93)
Repair and maintenance	(3,825)	(3,168)	21
Other expenses	(6,977)	(7,790)	(10)
	=====	=====	
Total cost of sales, selling and marketing and administrative expenses	(57,580)	(62,222)	(7)
	=====	=====	

**1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement
as at the end of the immediately preceding financial year**

Azeus Systems Holdings Ltd.
Balance Sheet as at 30 September 2014
(Expressed in Hong Kong Dollars)

	<u>The Group</u>			<u>The Company</u>		
	30 Sep 2014	31 Mar 2014	+ / (-)	30 Sep 2014	31 Mar 2014	+ / (-)
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Current assets						
Cash and cash equivalents	49,660	85,542	(42)	247	421	(41)
Pledged bank deposits	4,467	7,178	(38)	-	-	
Trade and other receivables	21,439	12,512	71	53,726	74,455	(28)
Inventories	5,970	351	1,600	-	-	-
Unbilled revenue on service contracts	41,351	36,909	12	-	-	-
Other current assets	1,481	40	3,603	-	-	-
	124,368	142,532	(13)	53,973	74,876	(28)
Non-current assets						
Investment in subsidiaries	-	-	-	50,443	50,443	-
Property, plant and equipment	719	709	1	-	-	-
Deferred tax assets	613	615	-	-	-	-
Refundable deposit	379	346	10	-	-	-
	1,711	1,670	2	50,443	50,443	-
Total assets	126,079	144,202	(13)	104,416	125,319	(17)

Azeus Systems Holdings Ltd.
Balance Sheet as at 30 September 2014
(Expressed in Hong Kong Dollars)
(Continued)

	<u>The Group</u>			<u>The Company</u>		
	30 Sep 2014	31 Mar 2014	+ / (-)	30 Sep 2014	31 Mar 2014	+ / (-)
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Current liabilities						
Trade and other payables	15,301	17,181	(11)	133	1,430	(91)
Current income tax liabilities	-	60	(100)	-	-	-
	=====	=====		=====	=====	
	15,301	17,241	(11)	133	1,430	(91)
Non-current liability						
Provision for defined retirement benefits	6,046	6,071	-	-	-	-
	=====	=====		=====	=====	
	6,046	6,071	-	-	-	-
	=====	=====		=====	=====	
Total liabilities	21,347	23,312	(8)	133	1,430	(91)
	=====	=====		=====	=====	
Net assets	104,732	120,890	(13)	104,283	123,889	(16)
	=====	=====		=====	=====	
REPRESENTED BY:						
Share capital	46,800	46,800	-	46,800	46,800	-
Share premium	56,489	56,489	-	56,726	56,726	-
Foreign currency translation reserve	258	114	126	-	-	-
Other reserves	1,328	1,328	-	-	-	-
Defined retirement benefits	(4,072)	(4,072)	-	-	-	-
Retained earnings	3,929	20,231	(81)	757	20,363	(96)
	=====	=====		=====	=====	
	104,732	120,890	(13)	104,283	123,889	(16)
	=====	=====		=====	=====	

1(b)(ii) Aggregate amount of group's borrowings and debt securities

The Group had no bank borrowings or debt securities as at 30 September 2014 and 31 March 2014.

1(c) A cash flow statement (for the group), together with a comparative statement for corresponding period of the immediately preceding financial year

	The Group	
	1st Half FY2015	1st Half FY2014
	(Apr-Sep 2014)	(Apr-Sep 2013)
	HK\$'000	HK\$'000
Cash flows from operating activities		
Net profit	2,328	8,888
Adjustment for:		
Income tax expense	370	2,260
Provision for retirement benefits	(25)	-
Depreciation of property, plant and equipment	191	183
Interest income	(138)	(60)
Exchange differences	146	(228)
	—————	—————
Operating cash flow before working capital change	2,872	11,043
Change in working capital:		
Trade and other receivables	(8,927)	(16,118)
Unbilled revenue on service contracts	(4,442)	(11,017)
Refundable deposits	(33)	(5)
Inventories	(5,619)	7,862
Trade and other payables	(1,880)	(10,668)
Pledged deposit	2,711	(13)
	—————	—————
Cash used in operations	(15,318)	(18,916)
Contributions to retirement fund	-	(108)
Income tax paid	(1,871)	-
	—————	—————
Net cash used in operating activities	(17,189)	(19,024)
	—————	—————

**1(c) A cash flow statement (for the group), together with a comparative statement for corresponding period of the immediately preceding financial year
(continued)**

	<u>The Group</u>	
	1 st Half FY2015 (Apr-Sep 2014)	1 st Half FY2014 (Apr-Sep 2013)
	HK\$'000	HK\$'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(201)	(71)
Interest received	138	60
	—————	—————
Net cash used in investing activities	(63)	(11)
Cash flows from financing activities		
Dividends paid to equity holders of the Company	(18,630)	-
	—————	—————
Net cash used in financing activities	(18,630)	-
Net decrease in cash and cash equivalents held	(35,882)	(19,035)
Cash and cash equivalents at the beginning of the period	85,542	48,626
	—————	—————
Cash and cash equivalents at the end of the period	49,660	29,591
	—————	—————

1(d)(i) A statement (for the issuer and the group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year

	Share Capital	Share Premium	Foreign Currency Translation Reserve	Other Reserves	Defined Retirement Benefits	Retained Profits	Total
<u>Group</u>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 April 2014	46,800	56,489	114	1,328	(4,072)	20,231	120,890
Total comprehensive income for the period	-	-	144	-	-	2,328	2,472
FY2014 final dividends proposed	-	-	-	-	-	(18,630)	(18,630)
	=====	=====	=====	=====	=====	=====	=====
Balance as at 30 September 2014	46,800	56,489	258	1,328	(4,072)	3,929	104,732
	=====	=====	=====	=====	=====	=====	=====
Balance as at 1 April 2013, as restated	46,800	56,489	76	1,328	(5,557)	32,745	131,881
Total comprehensive income for the period	-	-	(228)	-	-	8,888	8,660
FY2013 final dividends proposed	-	-	-	-	-	(31,140)	(31,140)
	=====	=====	=====	=====	=====	=====	=====
Balance as at 30 September 2013	46,800	56,489	(152)	1,328	(5,557)	10,493	109,401
	=====	=====	=====	=====	=====	=====	=====

	Share Capital	Share Premium	Retained Profits	Total
<u>Company</u>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 April 2014	46,800	56,726	20,363	123,889
Total comprehensive income for the period	-	-	(976)	(976)
FY2014 final dividends proposed	-	-	(18,630)	(18,630)
	=====	=====	=====	=====
Balance as at 30 September 2014	46,800	56,726	757	104,283
	=====	=====	=====	=====
Balance as at 1 April 2013	46,800	56,726	29,534	133,060
Total comprehensive income for the period	-	-	9,083	9,083
FY2013 final dividends proposed	-	-	(31,140)	(31,140)
	=====	=====	=====	=====
Balance as at 30 September 2013	46,800	56,726	7,477	111,003
	=====	=====	=====	=====

1(d)(ii) Details of any changes in the company's share capital arising from right issue, bonus issue, share buy backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.

Not applicable.

1(d)(iii) To show the total number of issued shares excluding treasury shares as at the end of the current financial period and as at the end of the immediately preceding year.

As at 30 September 2014, share capital of the Company comprised 300,000,000 ordinary shares (FY2014: 300,000,000). There were no treasury shares held by the Company at 30 September 2014 and 2013.

1(d)(iv) A statement showing all sales, transfers, disposal, cancellation and/or use of treasury shares as at the end of the current financial period reported on.

Not applicable.

2. Whether the figures have been audited, or reviewed and in accordance with which auditing standard or practice.

The figures have not been audited or reviewed by the Company's auditors.

3. Where the figures have been audited, or reviewed, the auditor's report (including any qualifications or emphasis of matter).

Not applicable.

4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.

The Company and the Group have applied the same accounting policies and methods

of computation in the preparation of the financial statements for the current reporting period compared with those for the audited financial statements for the year ended 31 March 2014, except for the adoption of following accounting standards (including their consequential amendments) and interpretations applicable for financial period beginning 1 April 2014.

FRS 110 Consolidated Financial Statements

FRS 111 Joint Arrangements

FRS 112 Disclosure of Interest in Other Entities

The adoption of the above new/revised accounting standards and interpretations does not have any material impact on the financial statements of the Group and of the Company but will require more disclosures in the financial statements.

- 5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of the change.**

Please refer to paragraph 4.

- 6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

	The Group	
	1st Half FY2015	1st Half FY2014
Net profit of the Group (HK\$'000)	2,328	8,888
Weighted average number of shares ('000)	300,000	300,000
- Basic earnings per share (HK cents)	0.78	2.96
- Fully diluted earnings per share (HK cents)	0.78	2.96

Fully diluted earnings per share is similar to the basic earnings per share as the Group did not have any potential dilutive ordinary shares outstanding as at 30 September 2014 and 30 September 2013.

7. **Net asset value (for the issuer and the group) per ordinary share based on issued share capital of the issuer at the end of the (a) current period reported on; and (b) immediately preceding financial year.**

	<u>The Group</u>		<u>The Company</u>	
	30 Sep 2014	31 Mar 2014	30 Sep 2014	31 Mar 2014
	HK cents	HK cents	HK cents	HK cents
Net asset value per ordinary share based on the existing share capital as at the end of the respective period	34.91	40.30	34.76	41.30

The number of ordinary shares outstanding for the computation of net asset value per ordinary share is 300,000,000 (FY2014: 300,000,000).

8. **A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:- (a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; (b) any material factors that affected the cash flow, working capital, assets or liabilities, of the group during the current financial period reported on.**

Income statement

a. Revenue

	1 st Half FY2015	1 st Half FY2014	+ / (-)
	(Apr-Sep 14)	(Apr-Sep 13)	
Revenue by business segment	HK\$'000	HK\$'000	%
IT Services, including sale of hardware and software	29,953	44,708	(33)
Maintenance and Support Services	24,184	22,550	7
Business Process Outsourcing ("BPO")	6,450	6,450	-
	—————	—————	
Total	60,587	73,708	(18)

The Group derives its revenue from three core business areas – IT services, maintenance and support services, and BPO. The extent of revenue recognition in each financial period is dependent on the stage of completion of the milestones for the development and implementation of the projects for which contracts vary in size and scope.

Group revenue decreased by 18.0% to HK\$60.6 million in 1H FY2015, as compared to HK\$73.7 million in the last corresponding period.

IT services accounted for 49.5% (1H FY2014: 60.6%) of total revenue in 1H FY2015. The fees from IT services were lower in 1H FY2015 due to fewer contracts secured and implemented in 1H FY2015. Also, sales of third party hardware and software in 1H FY2015 as required by the contract was only HK\$1.8 million as compared to same corresponding period of HK\$13.0 million.

Fees from maintenance and support services increased by 7.2% to HK\$24.2 million in 1H FY2015. This business segment accounted for 39.9% (1H FY2014: 30.6%) of total revenue in 1H FY2015. The Group managed to renew the maintenance contracts at higher price in 1H FY2015.

Fees from BPO remains the same at HK\$6.5 million in 1H FY2015. This business segment accounted for 10.6% (1H FY2014: 8.8%) of total revenue in 1H FY2015. The contract will complete on 30 November 2014 and will not be renewed upon contract expiry.

b. Cost of Sales and Gross Profit Margin

Cost of sales in 1H FY2015 was lower by HK\$7.0 million, from HK\$48.5 million to HK\$41.5 million due to a decrease in cost of sales of third party hardware and software. Overall, the gross profit margin decreased from 34.3% to 31.5%. Excluding sales of third party hardware and software, the Group's gross profit margin would have been 30.8% (1H FY2014: 37.6%). The drop in profit margin was due to the increase in salaries cost.

c. Other Income & Other Gains – net

	1 st Half FY2015	1 st Half FY2014	+ / (-)
	(Apr-Sep 14)	(Apr-Sep 13)	
	HK\$'000	HK\$'000	%
Other income comprised:			
Interest income	138	60	130
	<hr/>	<hr/>	
Subtotal	138	60	130
Other gains - net comprised:			
Net foreign exchange gain/(loss)	(447)	142	(415)
	<hr/>	<hr/>	
Subtotal	(447)	142	(415)

Interest income was higher in 1H FY2015 compared to 1H FY2014 due to higher average cash balance in the current period. Net foreign exchange loss increased in 1H FY2015 due to the purchase of foreign currencies for operating purposes at a higher rate as compared with last interim year end.

d. Selling and marketing expenses

Selling and marketing expenses increased by 17.0% or HK\$0.6 million in 1H FY2015 as the Group increased the selling and marketing activities for UK operation and our cloud-based offering.

e. Administrative and Other Operating Expenses

Administrative and other operating expenses increased by 16.9% or HK\$1.8 million in 1H FY2015 mainly due to the combined effect of the increase in administrative staff salaries of HK\$0.3 million, rent and rates of HK\$0.5 million, legal expenses of HK\$0.3 million and provision for bad debts of HK\$0.6 million.

f. Net profit after taxation

Overall, the Groups net profit margin decreased from 12.1% in 1H FY2014 to 3.8% in 1H FY2015.

Balance Sheet

a. Unbilled Revenue on Service Contracts

The increase in unbilled revenue on services contracts of HK\$4.4 million was due to a higher number of contracts implemented during the period but have not reached the payment milestones yet.

b. Trade and other receivables

Trade and other receivables increased by 71.3% from HK\$12.5 million to HK\$21.4 million, arising from higher more billings issued near end of 1H FY2015. All the net trade receivables as of 30 September 2014 are considered recoverable.

c. Inventory

Inventories comprise of third party hardware and software products to be used in IT service implementation projects under the relevant contract terms. The balance represents items that were delivered and which customers have not completed the corresponding acceptance tests. Therefore, the relevant revenue associated with these hardware and software products have not been recognised. Inventory increased from

HK\$0.4 million to HK\$6.0 million due to higher purchase of third party hardware and software products near in 1H FY2015 and the products are yet to be installed and accepted by customers.

d. Share capital and reserves

Shareholders' equity decreased from HK\$120.9 million at the beginning of the year to HK\$104.7 million as at 30 September 2014, mainly due to the payment of FY2014 final dividend of HK\$18.6 million offset by profit generated from operations of HK\$2.3 million in 1H FY2015.

Cash flow Statement

For the six months ended 30 September 2014, the Group's net cash used in operating activities was HK\$17.2 million. The major operating activities were increase in unbilled revenue, trade receivables and inventory as projects are under key implementation stages.

In addition, cash used in financing activities was primarily for the payment of FY2014 final dividend of HK\$18.6 million in September 2014.

Overall, the Group managed to maintain a cash position of HK\$49.7 million as at 30 September 2014.

9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

The Group issued a profit guidance for FY2015 on 14 October 2014 which stated that profits for 1H FY2015 were expected to be lower than 1H FY2014. The financial results for the period ended 30 September 2014 are consistent with the statements made in the profit guidance announcement.

10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The Group expects its financial results for FY2015 to be significantly lower year-on-year. The anticipated decrease in revenue and net profit are primarily

attributable to fewer contracts secured in 1H FY2015, higher investments in product development and marketing costs and the delay in legal cost determination as explained below.

As disclosed in its FY2014 annual report, the Group received the final ruling from the arbitrator which concluded that the customer shall pay the Group's legal costs on a party to party basis. A taxation proceeding is now delayed to mid-April 2015, the results will be recognised in the next financial year (FY2016).

Overall, the Group's core business fundamentals remain sound. We will continue to invest in the UK IT services market, where we have made encouraging headway in the past year with a £1.4 million (HK\$17.5 million) social care ICT services contract secured in August 2014.

We are building up new business and expanding internationally for intellectual assets in cloud technology. While current revenue contribution from this segment is small, we believe that this is a worthwhile investment.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

No interim dividend has been declared/recommended during the period ended 30 September 2014.

(b) Corresponding Period of the Immediately Preceding Financial Year

Any dividend declared for the corresponding period of the immediately preceding financial year?

No interim dividend was declared/recommended during the period ended 30 September 2013.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

12. If no dividend has been declared/recommendeded, a statement to that effect.

No interim dividend has been declared/recommended during the period.

PART II – ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

- 13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.**

Not applicable for half year results.

- 14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.**

Not applicable for half year results.

- 15. A breakdown of sales.**

Not applicable for half year results.

- 16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.**

Not applicable for half year results.

- 17. If no IPT mandate has been obtained, a statement to that effect.**

No IPT mandate obtained.

BY ORDER OF THE BOARD

LEE WAN LIK
MANAGING DIRECTOR
14 November 2014

Confirmation Pursuant to 705(5) of the Listing Manual

We, Lee Wan Lik and Lam Pui Wan, being the two directors of Azeus Systems Holdings Ltd. do hereby confirm on behalf of the directors of the Company that, to the best of our knowledge, nothing has come to attention of the board of directors of the Company which may render the financial results for the period ended 30 September 2014 to be false or misleading.

On behalf of the Board of Directors

LEE Wan Lik
Executive Director

LAM Pui Wan
Executive Director