A CMMI LEVEL 5 COMPANY

Azeus Systems Holdings Ltd.

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cre8
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AZEUS SYSTEMS HOLDINGS LTD.

ANNUAL REPORT 2012

GEARING FOR GROWTH
ENHANCING CONNECTIVITY

ANNUAL REPORT 2012

A CMMI LEVEL 5 COMPANY
Azeus Systems Holdings Ltd.

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CORPORATE PROFILE

Established in 1991, we are a leading provider of IT consultancy services based in Hong Kong. We were the first company in Hong Kong to be appraised at the highest level (Level 5) of the CMMI-SW model in November 2003. This is a strong endorsement of our commitment to achieving best practice processes and maintaining high quality standards for our IT solutions and services.

Under our IT services segment, we design and implement a broad range of IT software and systems, as well as develop and integrate various software programmes of IT systems to fulfill the outsourcing needs of our customers.

We also provide a vast spectrum of maintenance and support services. In addition, we are engaged in business process outsourcing (BPO). One of our milestone achievements is having won the first business outsourcing project from the Hong Kong Government – covering IT process, IT maintenance and support, as well as office operations and support services.

We have a solid track record of completing over 100 projects for more than 40 Government departments, as well as over 18 projects for the private sector in Hong Kong. While our strength has traditionally been in the public sector, we continue to develop our business on the regional commercial front.

We have an experienced management team, supported by a core group of highly competent and skilled IT professionals. Together, we are committed to continuously engineer innovative IT solutions and deliver excellent IT services.

Our established quality assurance systems, working methodologies and processes allow for a seamless integration of operations across multiple locations. Our software development centres are based in the Philippines and China, where lower costs of operations in these countries enable us to maintain competitive pricing for our tenders, without compromising the quality of our work.

Our Services

1

IT Consultancy Services

Azeus offers clients with consultancy services in developing comprehensive business and technology strategies to ensure long-term business growth and success.

2

Maintenance & Support Services

Our extensive scope of maintenance and support services includes software upgrades, problems resolution and bug fixing, disaster recovery planning and disaster recovery drill, and system technical support.

3

Business Process Outsourcing (BPO)

Our extensive experience and expertise in rendering business process management and providing business technology solutions offer a total solution to meet your business process outsourcing needs.

Connecting the dots in your **businesses**

Connecting smart technological processes to your business is at the core of what Azeus does. We are the leading IT solutions provider to the Hong Kong government, providing a full suite of services, including IT consultancy, maintenance, support and business process outsourcing.

MANAGING DIRECTOR'S MESSAGE

Our Group has scored a **positive performance** in FY2012, with encouraging growth reported across all segments.

Dear Valued Shareholders,

On behalf of the Board of Directors, I am pleased to present to you our annual report for the financial year ended March 31, 2012 ("FY2012").

We are pleased to report that we have achieved a positive performance with growth across all our business segments.

A Year of Growth

We achieved a 3-time surge in net profit to HK$10.4 million for the full year ended March 31, 2012 on the back of a 30% rise in revenue to HK$111.9 million for the same period. The increase in revenue was driven by growth in all three business segments – IT Services, Maintenance and Support Services, and Business Process Outsourcing ("BPO").

Segmentally, the IT Services segment remained our major revenue contributor, accounting for 48.7% of total revenue. With more contracts being secured and implemented in FY2012, the IT Services segment achieved HK$54.5 million in revenue. Excluding third party hardware and software sales of HK$0.25 million, our IT services sales were higher by HK$22.1 million or 69% due to new projects secured in this current year. Recurring revenue from Maintenance and Support Services segment rose 63% to HK$45.6 million, accounting for 40.8% of Group Revenue, on the back of an increase in number of high value maintenance contracts being secured in FY2012. Revenue from the BPO segment, which accounted for 10.5% of Group Revenue, grew 6% with the successful renewal of the BPO contract with higher chargeable rates.

To fulfill secured projects during the period under review, cost of sales increased from HK$62.3 million to HK$69.8 million in FY2012 mainly due to an increase in workforce. This was offset by decreases in cost of third party hardware and software sales of HK$11.2 million.

With higher revenue and prudent management, gross profit margin increased 10.1 percentage points from 27.5% in FY2011 to 37.6% in FY2012, despite higher costs.

In line with increased overseas expansion efforts, particularly in the United Kingdom, selling and marketing expenses rose 4% to HK$4.8 million in FY2012. Administrative and other operating expenses were up 33% to HK$24.3 million over the same period with an increase in legal and professional fee, recruitment agency fee and other expenses.

Overall, in line with higher revenue, net profit rose more than 3 times to HK$10.4 million in FY2012.

Key Corporate Developments and Outlook

We've experienced good progress on contract wins during the year under review. Since April 2011, the Group secured contracts worth a cumulative one-off value of approximately HK$202 million, which are expected to contribute progressively to the Group's results in the next five years.

These contracts further strengthen our position as a leading IT solutions provider to the Hong Kong government and include :

- two contracts worth a one-off price of approximately HK$58.9 million by two major government departments of the Hong Kong SAR;
- a total one-off price of approximately HK$81.7 million for a Multimedia Information System with possibility of recurring revenue from maintenance and system support services contract valued at approximately HK$66.36 million over ten years;
- three-year IT service and BPO contract worth approximately US$7.9 million.

Majority of these contracts were started in FY2011, with service periods ranging from one to five years, and revenue recognition in the coming financial years.

As a leading IT solutions provider to the Hong Kong government, we are well poised to capitalise on new tenders coming from the

Since April 2011, the Group secured contracts worth a cumulative one-off value of approximately HK$202 million, which are expected to contribute progressively to the Group's results in the next five years.

Hong Kong public sector. We remain committed to developing top-quality software products and delivering high-value IT systems to maintain our market share in the Hong Kong public sector.

At the same time, we will also focus on commercially developing and marketing our intellectual property rights and software products. Over the years, we have invested around 116 man years in developing software products which was conservatively written off in the prior years. Our assets, domain experience and technical expertise in software products, along with our strong track record in successfully completing many government projects, puts us in a favourable position as we expand into new markets such as the United Kingdom.

We are pleased to have made good progress in the United Kingdom, with the award of several framework agreements from the United Kingdom's government. At the same time, we are able to participate in tenders put out by various local government bodies in the country. Our business shows a promising growth this year.

During the year, we are also pleased to have received the Hong Kong ICT Award for one of our products, the AnywherePad, an enterprise-grade mobile paperless solution for document access, meetings and collaboration.

Strong Balance Sheet

The Group has no bank borrowings and debt securities and maintained a strong balance sheet with cash and cash equivalents of HK$62.5 million as at March 31, 2012.

Shareholder's equity for FY2012 was higher as compared to FY2011 by HK$7.0 million due to profit generated from operations of HK$10.4 million in FY2012, offset by payment of FY2011 final dividend of HK$3.4 million.

Rewarding our Shareholders

To thank our loyal shareholders for their continued support and confidence in Azeus, the Board has declared a first and final dividend of 3.48 HK cents per ordinary share. This compares with 1.14 HK cents per ordinary share in FY2011.

Words of Appreciation

I would like to thank my Board members for their wise counsel that has helped Azeus in our growth path. A word of appreciation also goes to our management team and staff for their unwavering dedication and contributions to Azeus. I will also like to take this opportunity to thank our valued shareholders, customers, bankers and business associates for the support that you have given us through the years.

Yours sincerely,

Lee Wan Lik
Founder and Managing Director

FINANCIAL HIGHLIGHTS

Revenue (HK $'000)

FY 2008	75,390
FY 2009	76,370
FY 2010	93,517
FY 2011	85,929
FY 2012	111,886

Profit Before Tax (HK $'000)

FY 2008	8,125
FY 2009	1,658
FY 2010	13,012
FY 2011	4,280
FY 2012	12,835

Net Profit (HK $'000)

FY 2008	7,191
FY 2009	778
FY 2010	10,417
FY 2011	3,422
FY 2012	10,425

Earnings Per Share (HK $'000)

FY 2008	2.40
FY 2009	0.26
FY 2010	3.47
FY 2011	1.14
FY 2012	3.48

CORPORATE INFORMATION

Board of Directors
Mr Lee Wan Lik (Managing Director)
Ms Lam Pui Wan (Executive Director)
Mr Michael Yap Kiam Siew (Independent Director)
Mr Koji Miura (Independent Director)
Professor Chan Ching Chuen (Independent Director)

Senior Management
Ms Peggy Sam (Group Financial Controller)
Ms Mary Rose T. Tan (President of Azeus Philippines)
Mr Rene Toling Lindio (Chief Technology Officer)
Mr Jerry Chua (Director of Azeus Philippines)

Audit Committee
Mr Koji Miura (Chairman)
Mr Michael Yap Kiam Siew
Professor Chan Ching Chuen

Remuneration Committee
Mr Michael Yap Kiam Siew (Chairman)
Mr Koji Miura
Professor Chan Ching Chuen

Nominating Committee
Professor Chan Ching Chuen (Chairman)
Mr Michael Yap Kiam Siew
Mr Lee Wan Lik

Joint Company Secretaries
Mr Yap Wai Ming
Mr Lean Min-tze

Registered Office
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda
Tel: 441 295 1443
Fax: 441 295 9216

Principal Office
33/F, Cambridge House,
Taikoo Place, 979 King's Road,
Quarry Bay, Hong Kong

Bermuda Share Registrar and Share Transfer Agent
Appleby Management (Bermuda) Ltd
Canon's Court
22 Victoria Street
Hamilton 12
Bermuda

Singapore Share Transfer Agent
Boardroom Corporate & Advisory Services Pte Ltd
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

Auditors
Pricewaterhouse Coopers LLP
Public Accountants and Certified Public Accountants
8 Cross Street
#17-00 PWC Building
Singapore 048424

Ms Rebekah Khan
Partner-in-charge since financial year ended
March 31, 2009

Principal Bankers
Hang Seng Bank Limited
83 Des Voeux Road Central
Central, Hong Kong

Principal Legal Adviser
Stamford Law Corporation
10 Collyer Quay
#27-00 Ocean Financial Centre
Singapore 049315

Investor Relations Contact
Citigate Dewe Rogerson
i.MAGE Pte Ltd
One Raffles Place
#26-02 OUB Centre
Singapore 048616
Tel: (65) 6534 5122
Fax: (65) 6534 4171

BOARD OF DIRECTORS

Mr Lee Wan Lik

Managing Director

Appointed to our Board on May 12, 2004, Mr Lee Wan Lik is responsible for overseeing the Group's overall management and operations, including project management and the provision of consultancy services.

Prior to founding Azeus in 1991, he was a Manager in Oracle Systems (Hong Kong) Limited. In 1990, Mr Lee was a Project Team Leader at the Versant Object Technology Corp. (now Versant Corporation). He was also a Researcher at the Microelectronics and Computer Technology Corporation in the United States from 1987 to 1990.

Mr Lee holds a Bachelor of Science in Computer Science and Engineering and a Bachelor of Science in Mathematics from the Massachusetts Institute of Technology (MIT). He also has a Master of Science in Computer Sciences from the University of Texas. Mr Lee is a fellow member of the Hong Kong Institution of Engineers and past Chairman of its IT division. He is also a Fellow of the British Computer Society and the Institution of Engineering and Technology.

Ms Lam Pui Wan

Executive Director

Ms Lam Pui Wan was appointed to our Board on May 12, 2004. She is the Head of Human Resource and Administration and assists our Managing Director in managing Azeus Hong Kong as well as the Group's offshore development centres, Azeus Philippines and Azeus China. Prior to joining our Group, Ms Lam was a Teaching Assistant at the Chinese University of Hong Kong. She holds a Bachelor of Arts from the University of Minnesota.

Mr Michael Yap Kiam Siew

Independent Director

Mr Michael Yap Kiam Siew was appointed as an Independent Director of Azeus on September 14, 2004. He is currently Deputy Chief Executive Officer of the Media Development Authority of Singapore (MDA).

Prior to his position at MDA, Mr Yap was the Chief Executive Officer of Commerce Exchange Pte Ltd. Before that, he was the Chief Executive Officer of the National Computer Board and has served as a board member of various public organisations. He was also on the board of directors of various companies, including public listed ones in Singapore and Malaysia.

Mr Yap holds a Bachelor of Science and a Master of Science from the University of Maryland, College Park, United States. He has also completed the Stanford Executive Program from Stanford University. Mr Yap was named one of Business Week's 50 Stars of Asia for his significant contributions to the IT industry in Singapore in 1999. He was nominated by the World Economic Forum as one of the Top 100 Future Global Leaders in 2000.

Mr Koji Miura

Independent Director

Mr Koji Miura was appointed as an Independent Director of Azeus on September 14, 2004. He is currently the Founder and Managing Director of Miura & Associates Management Consultants Pte Ltd.

Prior to that, Mr Miura worked as a Japanese Consultant in the Japanese Practice Department of Peat Marwick between 1986 and 1989, where he was responsible for servicing and expanding the Japanese clientele base of the firm. He started his career with Sato Kogyo Co. Ltd, a company listed in Japan.

Mr Miura holds a degree in Business Administration from the University of Aoyama Gakuin, Tokyo, Japan.

Mr Chan Ching Chuen

Independent Director

Mr Chan Ching Chuen, joined Azeus Systems Holdings Board of Directors on February 1, 2008 as an Independent Director. Mr Chan is an Honorary Professor at Hong Kong University's Department of Electrical and Electronics Engineering. He was the head of the Department of Electrical and Electronics Engineering, University of Hong Kong from 1994 to 2000.

He is a Fellow of the Royal Academy of Engineering, U.K., the Chinese Academy of Engineering, the Ukraine Academy of Engineering Sciences and a Fellow and Vice President (2000-2003) of Hong Kong Academy of Engineering Sciences. He is also a Fellow of IEEE, IET and HKIE. He is lecturing on electric vehicles worldwide. He was awarded the IEE International Lecture Medal and Gold Medal of Hong Kong Institution of Engineers in 2000 and 2010 respectively.

In 2001, he was selected as one of Asia's Best Technology Pioneers by Asiaweek. During his career, Mr Chan has advised on various consultancy projects for large corporations as well as serving as advisor to government agencies.

Mr Chan graduated from Tsing Hua University in 1959 with an Master of Science in Electrical Engineering, later achieving his PhD in 1982 from University of Hong Kong. From 1959 through 1966, Mr Chan started his career lecturing at China University of Mining & Technology. From 1967 through 1976, Mr Chan engaged in the design of new electric machines in Shanghai.

SENIOR MANAGEMENT

Ms Peggy Sam

Group Financial Controller

Ms Peggy Sam has been with our Group since March 15, 2004. She is responsible for all financial activities of Azeus.

Between 1994 and 2003, Ms Sam was with Pricewaterhouse Coopers, including a two year secondment to Pricewaterhouse Coopers, Toronto, Canada. Her last position, prior to joining Azeus, was as Senior Manager of the assurance and business advisory service.

Ms Sam holds a Bachelor of Arts in Accountancy from the City University of Hong Kong. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Ms Sam is also a member of Certified General Accountants Association of Canada since 2009.

Ms Mary Rose T. Tan

President of Azeus Philippines

Ms Mary Rose T. Tan joined Azeus Philippines in July 1996. She is in charge of the management of the Group's Philippines operations as well as human resource management. Ms Tan also heads the team that is responsible for conducting quality assurance review of project deliverables.

Between 1991 and 1996, she was with Ayala Systems Technology, Inc where she started as a Senior System Analyst and was later promoted to Project Manager and Senior Manager. She had also worked as an Analyst and Programmer at New York City Parks and Recreation Department and PCI Capital Corporation.

Ms Tan holds a Bachelor of Science in Industrial Management Engineering from De la Salle University, Taft, Manila and a Master of Science in Computer Science from Pace University, New York.

Mr Rene Toling Lindio

Chief Technology Officer

Mr Rene Toling Lindio is responsible for providing strategic direction for the Group on matters related to technology, technical consultation on technical issues and technical project management for various projects.

Mr Lindio joined Azeus Philippines as a Junior Associate in April 1994 and was promoted to chief technology officer in 2004. He holds a Bachelor of Science in Mathematics from the University of the Philippines – Los Banos.

Mr Jerry Chua

Director of Azeus Philippines

Mr Jerry Chua joined Azeus Philippines in March 1995. He currently assists in the general management of the Group's Philippines operation.

Mr Chua holds a Bachelor of Science in Computer Science from Ateneo de Manila University and a Master of Business Administration from University of the Philippines.

The directors and the management of the Company are committed to maintaining a high standard of corporate governance and transparency in order to protect the interests of the shareholders of the Company. Processes and procedures have been instituted and are being constantly reviewed and revised to ensure effective corporate governance.

Rule 710 of the SGX-ST Listing Manual require an issuer to describe its corporate governance practices with specific reference to the principles of the Code of Corporate Governance 2005 (the "Code") in its annual report. An issuer is required to disclose any deviation from any guideline of the Code together with an appropriate explanation for such deviation in the annual report. This report outlines the Company's corporate governance processes and activities with specific reference to the Code. The Company has complied with the principles and guidelines as set out in the Code where appropriate.

BOARD MATTERS

Principle 1: Board's Conduct of its affairs

The Board supervises the management of the business and the affairs of the Company and the Group. Apart from its fiduciary duties and statutory responsibilities, it also focuses on formulating the strategic direction and policies, paying particular attention to the growth of the Group and its financial performance. It has delegated the formulation of business policies and day-to-day management to the Executive Directors.

The principal functions of the Board are:

(a) to approve the Group's key business strategies and financial objectives;

(b) to approve major investments and divestments, and funding proposals;

(c) to oversee the process for evaluating the adequacy of internal controls; risk management, financial reporting and compliance; and

(d) to assume overall responsibility for corporate governance.

The Board meets at least twice a year to review and deliberate on the key activities and business strategies of the Group, including reviewing and approving acquisitions and financial performance, and to endorse the release of the interim and annual results. Ad hoc meetings are held as and when circumstances require, such as to address significant transactions or issues. The Company's Bye-Laws provides for Directors to participate in Board and Board committee meetings by means of teleconference, video-conferencing and visual equipment.

To assist in the efficient implementation and execution of its responsibilities, the Board has established an Audit Committee, a Nominating Committee and a Remuneration Committee. Specific responsibilities have been delegated to each of the committees. The Board accepts that while these Committees have the authority to examine particular issues and will report to the Board their decisions and recommendations, the ultimate responsibility for the final decision on all matters lies with the entire Board.

The Board through the Nominating Committee ensures that it recruits to the Board only individuals of sufficient calibre, knowledge and experience to fulfill the duties of a Director appropriately. Newly appointed directors are briefed on the Group's business activities and governance practices and provided with information on their duties and obligations as a director under the Bermuda law.

During the financial year ended 31 March 2012, the number of meetings held by the Board and its committees and the details of the attendances are as follows:-

	Board of Directors	Audit Committee	Remuneration Committee	Nominating Committee
Number of Meetings held	2	2	1	1
Name	**Number of Meetings attended**			
Lee Wan Lik	2	–	–	1
Ms Lam Pui Wan	2	–	–	–
Michael Yap Kiam Siew	2	2	1	1
Koji Miura	2	2	1	–
Professor Chan Ching Chuen	2	2	1	1

Principle 2: Board Composition and Balance

The Board currently comprises of 5 members, three of whom are independent non-executive directors. A brief profile of each Director is presented in the profile of Board of Directors section of this Annual Report and their shareholdings in the Company and its subsidiaries as at 31 March 2012 are disclosed in the Directors' Report of the Audited Financial Statements for the financial year ended 31 March 2012.

The Board has examined its size and is of the view that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Company.

The Nominating Committee is responsible for reviewing the composition of the Board to ensure that the Board has the appropriate mix of expertise and experience, and collectively possess the necessary core competencies for effective functioning and informed decision-making. The Board in consultation with the Nominating Committee has reviewed its composition and is satisfied that such composition ensures that there is adequate representation in respect of potential issues and challenges, without compromising the Board's effectiveness and participation in decision-making. Objectivity on issues deliberated by the Board is assured, given the majority of non-executive directors who are independent of management and are also independent in terms of character and judgement.

Principle 3: Role of Chairman and Chief Executive Officer

The Group's Managing Director is Mr Lee Wan Lik, who is responsible for the day-to-day operations of the Group, as well as monitoring the quality, quantity and timeliness of the flow of information between the Board and the management. Mr Lee is the founder of the Group and has played a key role in developing the Group's business. He is being assisted by a group of Executive Directors and Executive officers in carrying out his executive duties and responsibility for the Group's operation and business. Through the Group's success and development in these few years, Mr Lee has demonstrated his vision, strong leadership and enthusiasm in this business.

The Board is of the opinion that the absence of the appointment of a Chairman to their Board does not affect the effective running of the Board.

Principle 4: Board Membership

The Nominating Committee ("NC") comprises Professor Chan Ching Chuen as Chairman, Mr Michael Yap Kiam Siew and Mr Lee Wan Lik as members.

The NC is responsible for:-

(a) making recommendations to the Board on all board appointments;

(b) the re-nomination of the Directors having regard to the Director's contribution and performance;

(c) determining the independence of each Director on an annual basis; and

(d) deciding whether a Director is able to and has been adequately carrying out his duties as Director.

Subject to the Board's approval, the NC will also decide on how the Board's performance is to be evaluated, and propose objective performance criteria which are dependent on how the Board has enhanced long-term shareholder value. Appointments to the Board are made on merit and against objective performance criteria.

To help build a culture of performance and stewardship amongst its Board members, the Group ensures that all the Directors step down and offer themselves for re-election at regular intervals of at least once every three (3) years. The Company's Bye-Laws provide that at least one-third of the directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation.

A newly appointed Director will have to submit himself for retirement and election at an Annual General Meeting ("AGM") immediately following his appointment and thereafter, be subjected to retirement by rotation.

Each member of the NC shall abstain from voting on any resolution with respect to the assessment of his performance for re-nomination as a Director.

Principle 5: Board Performance

The NC will assess the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board.

The NC, in considering the re-appointment of a Director, will evaluate the performance of the Director's contributions such as his or her attendance record at meetings of the Board and Board committees, active participation during these meetings and the quality of his or her contributions.

The NC has initiated the assessment of the effectiveness of the Board as a whole on an annual basis. The evaluation of the Board's performance is conducted by means of a questionnaire which is then collated and the findings analyzed and discussed. The result of the Board's performance assessment are reviewed and circulated to the Board for consideration. Recommendations to further enhance the effectiveness of the Board are implemented as appropriate.

Principle 6: Access to Information

To assist the Board in fulfilling its responsibilities, the management provides the Board with management reports containing complete, adequate and timely information prior to Board meetings and as and when the need arises. Papers containing relevant background or explanatory information required to support the decision-making process, are prepared for each Board meeting and are normally circulated in advance of the meeting.

The Board is also provided with updates on the relevant new laws, regulations and changing commercial risks in the Company's operating environment. Orientation to the Company's business strategies and operations is conducted as and when required.

All Directors have separate and independent access to senior management and to the Company Secretaries. The Company Secretaries administer, attend and prepare minutes of the Board meetings, and assist the Chairman in ensuring that the Board procedures are followed and reviewed so that the Board functions effectively. The Company Secretaries also advise the Board on governance matters, and assist the Board on compliance with the Company's Bye-Laws and relevant rules and regulations, including requirements of the Listing Manual of the Singapore Exchange Securities Trading Limited (SGX-ST).

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

The Remuneration Committee ("RC") comprises Mr Michael Yap Kiam Siew as Chairman and Mr Koji Miura and Professor Chan Ching Chuen as members.

The RC is responsible for:-

(a) recommending to the Board a remuneration framework for the Board and Key Executive Officers, and determining a specific remuneration package for each Executive Director and the Managing Director (or executive of equivalent rank). The RC will consider all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind; and

(b) reviewing and administering the Company's compensation schemes such as our employee share option scheme and other remuneration packages of the Company from time to time. As part of its review, the RC shall ensure that all aspects of the various schemes are comparable to other similar companies within the industry.

The key executive Directors do not receive director's fee. The remuneration for the executive directors and the key senior executives comprises a basic salary component and a variable component which is the annual bonus, based on the performance of the Group as a whole or their individual performance.

Principle 8: Level and Mix of Remuneration

Principle 9: Disclosure on Remuneration

Directors' remuneration

Remuneration band and name of Directors	Salary	Bonus	Director's fees	Incentive and other benefits	Total
<S$200,000					
Lee Wan Lik	98%	–	–	2%	100%
<S$100,000					
Mr Michael Yap Kiam Siew	–	–	100%	–	100%
Mr Koji Miura	–	–	100%	–	100%
Professor Chan Ching Chuen	–	–	100%	–	100%
Ms Lam Pui Wan	100%	–	–	–	100%

Remuneration band and name of 4 key executives	Salary	Bonus	Incentive and other benefits	Total
<S$200,000				
Ms Mary Rose T. Tan	66%	15%	19%	100%
Mr Rene Toling Lindio	64%	17%	19%	100%
Mr Jerry Chua	70%	11%	19%	100%
Ms Peggy Sam	72%	27%	1%	100%

The remuneration of the Non-Executive Directors and Independent Directors is in the form of a fixed fee. The fees of the Directors will be subject to shareholders' approval at the AGM.

Mr Lee Wan Lik has entered into a service agreement (the "Service Agreement") with the Company. The Service Agreement is valid for a term of one year with effect from 3rd September 2004, and thereafter continues from year to year unless terminated in accordance with the provisions of the Service Agreement. The Service Agreement can be terminated by either party giving not less than three months' notice provided that the Company shall have the option to pay three months' salary in lieu of any required period of notice. Except for such payment in lieu of notice as provided for under the Service Agreement, no compensation or damages are payable by the Company to Mr Lee Wan Lik in respect of his termination in accordance with the terms of the Service Agreement.

There are no employees who are immediate family members of a Director whose remuneration exceeded S$150,000 in the financial year ended 31 March 2012.

Share option scheme

The Company has a share option scheme known as the Azeus Employee Share Option Scheme (the "Scheme"), which was approved by shareholders of the Company. The Scheme complies with the relevant rules as set out in Chapter 8 of the Listing Manual. The Scheme will provide eligible participants with an opportunity to participate in the equity of the Company, so as to incentivise and motivate them towards better performance through increased dedication and loyalty. The Scheme is administered by the RC. No options have been granted under the Scheme during the current financial period.

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Board is accountable to the shareholders while the management is accountable to the Board.

The Board provides the shareholders with a detailed and balanced explanation and analysis of the Company's performance, position and prospects on a half-yearly basis.

In order to keep the Board informed about the developments in the Company, the management provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a half-yearly basis. The management also provides the Board with timely, accurate and complete information on all matters requiring the Board's decision.

Principle 11: Audit committee ("AC")

The AC comprises three independent non-executive directors, with Mr Koji Miura as Chairman, and Mr Michael Yap Kiam Siew and Professor Chan Ching Chuen as members.
The AC will meet periodically to, inter alia:

(i) review the audit plans and reports of the Company's internal and external auditors;

(ii) review the financial statements of the Company before submission to the Directors and shareholders;

(iii) review and evaluate the independence and performance of the external auditors;

(iv) review any major interested person transactions;

(v) review the effectiveness and adequacy of internal accounting and financial control procedures;

(vi) review the adequacy of the business risk management process; and

(vii) review the appointment / re-appointment of the external / internal auditors and the audit fees

Apart from the above functions, the AC will also commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, failure of internal controls, or infringement of any law, rule or regulation which has or is likely to have a material impact on our Company's operating results or financial position. Each member of the AC will abstain from voting in respect of matters in which he is interested.

The AC is empowered to investigate any matter relating to the group's accounting, auditing, internal controls and/or financial practices brought to its attention, with full access to records, resources and personnel, so as to enable it to discharge its functions properly.

The AC, having reviewed the volume of non-audit services to the Company by the external auditors, is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors.

The AC has accordingly recommended to the Board that the auditor, PricewaterhouseCoopers LLP, be nominated for re-appointment as auditor at the forthcoming Annual General Meeting of the Company.

In line with the Code of Corporate Governance 2005, a private session between the AC with the external auditor and the internal auditor was held to discuss any issues without the presence of the Management.

Principle 12: Internal Controls

The Board's responsible for ensuring that there is a system of internal financial controls, operational and compliance controls, and risk management policies and reviewing its adequacy and effectiveness. The management is responsible for internal control and for ensuring compliance therewith. The Audit Committee assists the Board in discharging its internal control review responsibilities. The Board takes continuous effort to embed internal control into the operations of the businesses and to deal with area for improvement which come to the attention of the management and the Board.

Principle 13: Internal Audit

The Company has not established an internal audit function but the Company has appointed BDO as its internal auditor to review the effectiveness of the Company's material internal controls subject to the scope of work agreed with the AC and the resulting report issued by the internal auditor is reviewed in detail by the AC in conjunction with management.

For FY2012, the Board is of the view that based on the reports from the internal auditor, the system of internal controls that has been maintained by the management throughout the financial year is adequate to meet the needs of the Company. The Board shall consider expanding its internal audit resources as and when the need arises.

COMMUNICATION WITH SHAREHOLDERS

Principle 14: Communication with Shareholders

The Company engages in regular, effective and fair communication with shareholders. The Board is mindful of the obligations to provide timely information and full disclosure of material information to shareholders in accordance with the statutory requirement and the listing manual of the SGX-ST. Information is communicated to shareholders on a timely basis. All material information and financial results are released through SGXNET.

Notice of Annual General Meeting ("AGM") and Annual Reports are issued to all shareholders of the Company. The Notice of AGM is also advertised in newspaper and announced via SGXNET. Information on major new initiatives of the Company is also disseminated via SGXNET, news release and made available on the Company's website.

Regular meetings are held with investors, analysts, fund managers and the press. The Group also has a corporate web-site (www.azeus.com) where shareholders and members of the public are able to access up-to-date corporate information and new events related to the Group.

Principle 15: Greater shareholders participation

The Annual General Meeting of the Company represents the principal forum for dialogue and interaction with all shareholders. At each Annual General Meeting, the Board welcomes questions from shareholders who have an opportunity to raise questions or share their views regarding the proposed resolutions and the Company's business and affairs, either informally or formally before or at the AGM.

The Chairman of the Board Committees, Directors, senior management and external auditors will be present and available at the general meeting to attend to the queries/questions from shareholders.

Code of Business Conduct

The Directors, officers and employees are required to observe and maintain high standards of integrity, as are in compliance with law and regulations and the Company's policies.

Dealings in Securities

The Company have adopted an internal code of practice for securities transactions by all Directors, officers and employees of the Group in compliance with Rule 1207(18) of the Listing Manual of SGX-ST.

In compliance with the above-mentioned Rule, Directors, officers and employees of the Group have been advised not to trade in the listed securities of the Company when in possession of unpublished price-sensitive information or on short-term considerations. Directors, officers and employees are also not to trade in the Company's securities during the period commencing one month before the announcement of the Company's half year and full year financial results and ending on the day of the announcement of the relevant results. All directors, officers and managers are also required to file with the Company regular reports on all their dealings in the listed securities of the Group during the financial year.

Material Contracts

There were no material contracts (including loans) of the Company or its subsidiaries involving the interests of the chief executive officer, directors or controlling shareholders which subsisted at the end of the financial year or have been entered into since the end of the previous financial year.

Risk Management

The Company does not have a Risk Management Committee. However, management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The management reviews all significant control policies and procedures and highlights all significant matters to the Board and the AC.

Interested Person Transactions

The Group has adopted an internal policy in respect of any transactions with interested persons and established procedures for the review and approval of such transactions.

An interested person transactions will be properly documented and submitted to the AC for half-yearly review to ensure that they are carried out on an arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

There were no significant interested person transactions during the financial year.

Whistle Blowing Policy

The whistle blowing policy of the Group serves to encourage and provide a good channel to employees to report and to raise, in good faith and in confidence, concerns about possible improprieties in financial reporting, criminal activities, failure to comply with the laws and regulations, any suspected wrongdoing of fraud or other matters. A well-defined process ensures independent investigation of such matters and the assurance that employees will be protected to the extent possible from reprisals. Under the policy, employees may report their concerns to either the human resource department or even approach the Independent Directors.

UPDATE ON THE USE OF PROCEEDS RAISED FROM INITIAL PUBLIC OFFERING OF THE COMPANY PURSUANT TO RULE 1207(19) OF THE LISTING MANUAL OF SGX-ST

The Company has raised approximately HK$68.3 million (equivalent to approximately S$14.7 million) from its initial public offering ("IPO") through issuance of 75,000,000 new shares at S$0.22 each on 22 October 2004 (after deducting IPO expenses as disclosed on page 45 of the Company's Prospectus dated 13 October 2004).

As at the date of the Annual Report, the total amount utilised were as follows:

Intended use	Amount Allocated S$ million	Amount Utilised S$ million	Balance S$ million
Expansion of Philippines and China Operation	1.2	–	1.2
Sales and marketing activities	1.2	–	1.2
Strategic business investments and acquisitions	3.5	(0.5)	3.0
Commercial exploitation and development of intellectual property rights	2.4	–	2.4
General working capital	6.4	(2.1)	4.3
	14.7	(2.6)	12.1

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 March 2012 and the balance sheet of the Company as at 31 March 2012.

Directors

The directors of the Company in office at the date of this report are as follows:

Mr Lee Wan Lik
Ms Lam Pui Wan
Mr Koji Miura
Mr Michael Yap Kiam Siew
Professor Chan Ching Chuen

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object was to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' interests in shares or debentures

(a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		Holdings in which director is deemed to have an interest	
	At 31.3.2012	**At 1.4.2011**	**At 31.3.2012**	**At 1.4.2011**
Company				
(No. of ordinary shares)				
Mr Lee Wan Lik	80,321,326(1)	80,321,326(1)	153,000,000(2)	153,000,000(2)
Ms Lam Pui Wan	14,000,000(1)	14,000,000(1)	153,000,000(2)	153,000,000(2)

(1) Ms Lam Pui Wan is the spouse of Mr Lee Wan Lik. Hence, both Ms Lam Pui Wan and Mr Lee Wan Lik are deemed to be interested in the shareholdings held by each other.

(2) Mr Lee Wan Lik and Ms Lam Pui Wan are also each deemed to be interested in these shares held by Mu Xia Ltd by virtue of them holding equity interest of 10% and 90% respectively in Mu Xia Ltd.

(b) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had interests in the options to subscribe for ordinary shares of the Company granted pursuant to the Azeus Employee Share Option Scheme.

(c) The directors' interests in the share capital of the Company as at 21 April 2012 remained unchanged from those as at 31 March 2012.

Directors' contractual benefits

Since the end of the previous financial year, no director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest, except as disclosed in the accompanying financial statements and in this report, and except that Mr Lee Wan Lik and Ms Lam Pui Wan have employment relationships with a subsidiary and have received remuneration in those capacities.

Share options

Azeus Employee Share Option Scheme

On 14 September 2004, the shareholders at a Special General Meeting approved an employee share option scheme known as the "Azeus Employee Share Option Scheme" (the "Scheme") to grant share options to eligible employees, including executive and non-executive directors of the Company and its subsidiaries. However, qualified persons who are also the Company's controlling shareholders or their associates may not participate in the Scheme. The options grant the right to the holder to subscribe for new ordinary shares of the Company at a discount to the market price of the share (subject to a maximum limit of 20%) or at a price equal to the average of the last dealt prices of the shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") for the three consecutive Market Days immediately preceding the date of the grant of the option.

The Scheme is administered by the Remuneration Committee which comprises the following three directors:

1. Mr Michael Yap Kiam Siew (Chairman)
2. Mr Koji Miura
3. Professor Chan Ching Chuen

The committee has been authorised to determine the terms and conditions of the grant of the options.

No option has been granted to controlling shareholders, key management or employees of the Company and its subsidiaries or their associates since the inception of the Scheme.

Independent auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

Lee Wan Lik Director	Lam Pui Wan Director

11 June 2012

STATEMENT BY THE DIRECTORS

For the financial year ended 31 March 2012

In the opinion of the directors,

(a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 24 to 65 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2012 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

Lee Wan Lik	Lam Pui Wan
Director	Director

11 June 2012

Report on the Financial Statements

We have audited the accompanying financial statements of Azeus Systems Holdings Ltd (the "Company") and its subsidiaries (the "Group") set out on pages 24 to 65, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 March 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2012, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants

Singapore, 11 June 2012

CONSOLIDATED INCOME STATEMENT

For the financial year ended 31 March 2012

		Group	
	Note	**2012** **HK$'000**	2011 HK$'000
Sales	4	**111,886**	85,929
Cost of sales		**(69,830)**	(62,299)
Gross profit		**42,056**	23,630
Other income	7	**469**	3,348
Other (losses) / gains - net	8	**(479)**	557
Expenses			
- Selling and marketing		**(4,849)**	(4,643)
- Administrative		**(24,325)**	(18,274)
Share of loss of a joint venture	17	**(37)**	(338)
Profit before income tax		**12,835**	4,280
Income tax expense	9	**(2,410)**	(858)
Net profit		**10,425**	3,422
Profit attributable to:			
Equity holders of the Company		**10,425**	3,422
Earnings per share for profit attributable to equity holders of the Company (HK cents per share)			
- Basic	10	**3.48**	1.14
- Diluted	10	**3.48**	1.14

	Group	
	2012	2011
	HK$'000	HK$'000
Profit for the year	**10,425**	3,422
Other comprehensive income:		
Financial assets, available-for-sale		
- Fair value gains	**–**	7
- Reclassification	**17**	–
Currency translation differences arising on consolidation	**21**	51
Other comprehensive income for the year, net of tax	**38**	58
Total comprehensive income for the year	**10,463**	3,480
Total comprehensive income attributable to:		
Equity holders of the Company	**10,463**	3,480

BALANCE SHEETS
For the financial year ended 31 March 2012

		Group		Company	
		2012	2011	**2012**	2011
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
ASSETS					
Current assets					
Cash and cash equivalents	11	**69,614**	96,977	**302**	245
Trade and other receivables	12	**13,587**	9,135	**59,401**	54,082
Unbilled revenue on service contracts	14	**43,351**	12,595	**–**	–
Inventories	15	**8,028**	159	**–**	–
Current income tax assets	9	**42**	980	**–**	–
Amount due from a joint venture		**126**	16	**–**	–
		134,748	119,862	**59,703**	54,327
Non-current assets					
Financial assets, available-for-sale	16	**–**	765	**–**	–
Refundable deposits		**293**	276	**–**	–
Investment in a joint venture	17	**–**	37	**–**	37
Investments in subsidiaries	18	**–**	–	**50,477**	50,493
Property, plant and equipment	19	**515**	625		–
Deferred income tax assets	22	**192**	382		–
		1,000	2,085	**50,477**	50,530
Total assets		**135,748**	121,947	**110,180**	104,857
LIABILITIES					
Current liabilities					
Trade and other payables	20	**15,958**	10,753	**1,294**	1,154
Current income tax liabilities	9	**1,324**	13	**–**	–
		17,282	10,766	**1,294**	1,154
Non-current liability					
Provision for retirement benefit	21	**1,683**	1,439	**–**	–
Total liabilities		**18,965**	12,205	**1,294**	1,154
NET ASSETS		**116,783**	109,742	**108,886**	103,703
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	23	**46,800**	46,800	**46,800**	46,800
Share premium		**56,489**	56,489	**56,726**	56,726
Foreign currency translation reserve		**97**	76	**–**	–
Other reserves	24	**1,328**	1,311	**–**	–
Retained profits	25	**12,069**	5,066	**5,360**	177
Total equity		**116,783**	109,742	**108,886**	103,703

		Attributable to equity holders of the Company					
	Note	Share capital HK$'000	Share premium HK$'000	Foreign currency translation reserve HK$'000	Other reserves HK$'000	Retained profits HK$'000	Total equity HK$'000
2012							
Beginning of financial year		46,800	56,489	76	1,311	5,066	109,742
Dividend relating to 2011 paid	26	–	–	–	–	(3,422)	(3,422)
Total comprehensive income for the year		–	–	21	17	10,425	10,463
End of financial year		46,800	56,489	97	1,328	12,069	116,783
2011							
Beginning of financial year		46,800	56,489	25	1,304	12,061	116,679
Dividend relating to 2010 paid	26	–	–	–	–	(10,417)	(10,417)
Total comprehensive income for the year		–	–	51	7	3,422	3,480
End of financial year		46,800	56,489	76	1,311	5,066	109,742

CONSOLIDATED STATEMENT OF CASH FLOWS
For the financial year ended 31 March 2012

	Note	Group 2012 HK$'000	Group 2011 HK$'000
Cash flows from operating activities			
Net profit		**10,425**	3,422
Adjustments for:			
- Income tax expense		**2,410**	858
- Retirement benefit plan		**628**	515
- Depreciation of property, plant and equipment		**278**	303
- Interest income		**(469)**	(228)
- Net loss on disposal of available-for-sale financial assets		**3**	–
- Share of loss of a joint venture		**37**	338
- Unrealised currency translation losses		**17**	83
		13,329	5,291
Change in working capital			
- Trade and other receivables		**(4,452)**	13,537
- Unbilled revenue on service contracts		**(30,756)**	19,580
- Amount due from a joint venture		**(110)**	(16)
- Refundable deposits		**(17)**	(37)
- Inventories		**(7,869)**	7,374
- Trade and other payables		**5,205**	(338)
- Pledged bank deposits		**(2,904)**	25,819
Cash (used in)/generated from operations		**(27,574)**	71,210
Contributions to retirement fund		**(384)**	(337)
Income tax refunded/(paid)		**29**	(3,993)
Net cash (used in)/provided by operating activities		**(27,929)**	66,880
Cash flows from investing activities			
Proceeds from disposal of available-for-sale financial assets		**779**	–
Purchases of property, plant and equipment		**(177)**	(226)
Proceeds from disposal of property, plant and equipment		**13**	–
Interest received		**469**	228
Additional capital to a joint venture		**–**	(195)
Net cash provided by/(used in) investing activities		**1,084**	(193)
Cash flows from financing activities			
Dividends paid to equity holders of the Company	26	**(3,422)**	(10,417)
Net cash used in financing activities		**(3,422)**	(10,417)
Net (decrease)/increase in cash and cash equivalents		**(30,267)**	56,270
Cash and cash equivalents at beginning of financial year		**92,773**	36,503
Cash and cash equivalents at end of financial year	11	**62,506**	92,773

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. General information

Azeus Systems Holdings Ltd. (the "Company") is incorporated as an exempt company with limited liability under the Companies Act 1981 of Bermuda with registered offi ce at Canon's Court, 22 Victoria Street, Hamilton HM1, Bermuda. The principal place of business of the Company is 33rd Floor, Cambridge House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

The Company is listed on the Singapore Exchange.

The principal activity of the Company is that of an investment holding company. The principal activities of the joint venture and subsidiaries are set out in Notes 17 and 18 respectively.

2. Significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2011

On 1 April 2011, the Group adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application for annual periods commencing after 1 January 2011. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

The following are the new or revised FRS and INT FRS that are relevant to the Group:

(a) Amendments to FRS 24 Related Party Disclosures (effective for annual periods beginning on or after 1 January 2011)

The amendments clarify and simplify the definition of a related party. Previously, the definition of a related party was complicated and contained a number of inconsistencies. These inconsistencies meant, for example, that there were situations in which only one party to a transaction was required to make related-party disclosures. The definition has been amended to remove the inconsistencies and to make it easier to apply.

The adoption of the above FRS did not result in any substantial change to the Group's accounting policies nor any significant impact on the financial statements.

2. Significant accounting policies (continued)

2.2 Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group's activities. Sales are presented, net of value-added tax, rebates and discounts, and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectibility of the related receivables is reasonably assured and when the specific criteria for each of the Group's activities are met as follows:

(a) Service contracts

A service contract is a contract specifically negotiated for the provision of IT services, including sales of hardware and software products as required under the relevant contract terms.

When the outcome of a service contract can be estimated reliably, contract revenue for the provision of IT services is recognised by using the stage of completion method. The stage of completion is measured by reference to the percentage of actual time costs incurred to date to estimated total time costs. When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable.

Contract costs are recognised when incurred. When it is probable that total contract cost will exceed total contract revenue, the expected loss is recognised as an expense immediately. Costs incurred during the financial year in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract and are presented as inventories or unbilled revenue on service contracts depending on their nature.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as unbilled revenue on service contracts in the balance sheet. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as amount due to customers on service contracts.

(b) Maintenance fees

Maintenance fees are recognised pro-rata over the period of maintenance. Fees relating to future periods are treated as advances from customers within "trade and other payables" in the balance sheet.

(c) Support services fees and business process outsourcing fees

Support service fees and business process outsourcing fees are recognised when the services are rendered.

(d) Interest income

Interest income is recognised using the effective interest method.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

2. Significant accounting policies (continued)

2.3 Group accounting

(a) *Subsidiaries*

(i) *Consolidation*

Subsidiaries are entities (including special purpose entities) over which the Group has power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanied by a shareholding giving rise to a majority of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests are that part of the net results of operations and of net assets of a subsidiary attributable to the interests which are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(ii) *Acquisition of businesses*

The acquisition method of accounting is used to account for business combinations by the Group.

The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill.

2. Significant accounting policies (continued)

2.3 Group accounting (continued)

(a) *Subsidiaries* (continued)

(iii) *Disposals of subsidiaries or businesses*

When a change in the Company's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained investment at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to the paragraph 2.5 "Investments in subsidiaries and joint venture" for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

(b) *Transactions with non-controlling interests*

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control over the subsidiary are accounted for as transactions with equity owners of the Group. Any difference between the change in the carrying amounts of the non-controlling interest and the fair value of the consideration paid or received is recognised in a separate reserve within equity attributable to the equity holders of the Company.

(c) *Joint venture*

The Group's joint venture is an entity over which the Group has contractual arrangements to jointly share the control over the economic activity of the entity with one or more parties. The Group's interest in a joint venture is accounted for in the consolidated financial statements using the equity method of accounting less impairment losses, if any.

Investment in a joint venture is initially recognised at cost. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In applying the equity method of accounting, the Group's share of its joint venture's post-acquisition profits or losses is recognised in profit or loss and its share of post-acquisition over comprehensive income is recognised in other comprehensive income. These post-acquisition movements and distributions received from the joint venture are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured non-current receivables, the Group does not recognise further losses, unless it has obligations or has made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of the joint venture have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

2. Significant accounting policies (continued)

2.3 Group accounting (continued)

(c) Joint venture (continued)

Gains and losses arising from partial disposals of dilutions in investment in a joint venture are recognised in profit or loss.

Please refer to paragraph 2.5 "Investments in subsidiaries and joint venture" for the accounting policy on investment in a joint venture in the separate balance sheet of the Company.

2.4 Property, plant and equipment

(a) Measurement

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(b) Depreciation

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	Useful lives
Leasehold improvements and furniture and fixtures	3 - 5 years
Office equipment	2 - 5 years
Computer equipment	3 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

(c) Subsequent expenditure

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) Disposal

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss.

2.5 Investments in subsidiaries and joint venture

Investments in subsidiaries and joint venture are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries and joint venture, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2. Significant accounting policies (continued)

2.6 Impairment of non-financial assets

Property, plant and equipment
Investments in subsidiaries and joint venture

Property, plant and equipment and investments in subsidiaries and joint venture are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount.

The difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset is recognised in profit or loss.

2.7 Financial assets

(a) Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the nature of the assets and the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those expected to be realised later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables", "cash and cash equivalents" and "unbilled revenue on service contracts" on the balance sheet.

(ii) Financial assets, available for sale

Financial assets, available-for-sale are non-derivatives that are either designated in this category or not classified in any of the other categories. They are presented as non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

2. Significant accounting policies (continued)

2.7 Financial assets (continued)

(b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount in the fair value reserve relating to that asset is reclassified to profit or loss.

(c) *Initial measurement*

Financial assets are initially recognised at fair value plus transaction costs.

(d) *Subsequent measurement*

Financial assets, available-for-sale are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Interest and dividend income on financial assets, available-for-sale are recognised separately in income. Changes in the fair values of available-for-sale debt securities (i.e. monetary items) denominated in foreign currencies are analysed into currency translation differences on the amortised cost of the securities and other changes; the currency translation differences are recognised in profit or loss and the other changes are recognised in the fair value reserve. Changes in fair values of available-for-sale equity securities (i.e. non-monetary items) are recognised in the fair value reserve, together with the related currency translation differences.

(e) *Impairment*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired and recognises an allowance for impairment when such evidence exists.

(i) *Loans and receivables*

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

2. Significant accounting policies (continued)

2.7 Financial assets (continued)

(e) *Impairment* (continued)

(i) *Loans and receivables* (continued)

The allowance for impairment loss account is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

(ii) Financial assets, available-for-sale

In addition to the objective evidence of impairment described in Note 2.7(e)(i), a significant or prolonged decline in the fair value of an entity security below its cost is considered as an indicator that the available-for-sale financial asset is impaired.

If any evidence of impairment exists, the cumulative loss that was recognised in the fair value reserve is reclassified to profit or loss. The cumulative loss is measured as the difference between the acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any impairment loss previously recognised as an expense. The impairment losses recognised as an expense on equity securities are not reversed through profit or loss.

2.8 Inventories

Inventories comprise hardware and software products to be used in IT projects under the relevant contract terms and are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Trade and other payables

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

2.10 Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analyses, are also used to determine the fair values of the financial instruments.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

2. Significant accounting policies (continued)

2.11 Operating lease payments

Leases of assets where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

2.12 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries and joint venture, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

(i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and

(ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.13 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) Employee leave entitlements

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

(b) Pension benefits

The Group operates both defined benefit and defined contribution post-employment benefit plans.

2. Significant accounting policies (continued)

2.13 Employee compensation (continued)

(b) *Pension benefits* (continued)

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the provident fund scheme in Hong Kong on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The Group's contributions are recognised as employee compensation expense when they are due.

Defined benefits plans are post-employment benefit pension plans other than defined contribution plans. Defined benefit plans typically define the amount of benefit that an employee will receive on or after retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group has a pension plan for the employees of its subsidiary in accordance with the local conditions and practices in the Philippines. The plan is generally funded through payments to trustee-administered funds as determined by periodic actuarial calculations.

The liability recognised in the balance sheet in respect of a defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and have tenures approximating to that of the related post-employment benefit obligations.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are recognised in profit or loss over the employees' expected average remaining working lives.

Past service costs are recognised immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(c) *Share grant*

A controlling shareholder has implemented a share grant incentive scheme for certain key employees. Under this incentive, the managing director and controlling shareholder will transfer ordinary shares from his personal shareholding to such employees from time to time. The number of shares to be transferred and the terms of such transfers will be in his absolute discretion, and entitled employees will be providing no, nominal or discounted consideration for such transfers.

The fair value of the employee services received in exchange for the grant of the shares from the controlling shareholder is recognised as an expense in profit or loss with a corresponding increase in the reserve on the date of grant. The fair value of the employee services received is determined from the quoted market value of the shares granted in consideration of the services performed at the date of the grant. The shares vest immediately upon being granted.

2. Significant accounting policies (continued)

2.13 Employee compensation (continued)

(d) Termination benefits

Termination benefits are those benefits which are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.14 Currency translation

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements are presented in Hong Kong Dollar, which is the functional currency of the Company.

(b) Transactions and balances

Transactions in a currency other than the functional currency ("foreign currency") are translated into the functional currency using the exchange rates at the dates of the transactions. Currency translation differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(c) Translation of Group entities' financial statements

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities are translated at the closing exchange rates at reporting date;

(ii) Income and expenses are translated at average exchange rates (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

(iii) All resulting currency translation differences are recognised in the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 April 2005 are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date. For acquisitions prior to 1 April 2005, the exchange rates at the dates of acquisition are used.

2. Significant accounting policies (continued)

2.15 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

2.16 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand and deposits with financial institutions which are subject to an insignificant risk of change in value.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.18 Dividends to Company's shareholders

Interim dividends are recognised when they are declared payable. Final dividends are recognised when the dividends are approved for payments.

3. Critical accounting estimates and judgements

Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revenue recognition

The Group recognises contract revenue for provision of IT services based on the percentage-of-completion method. The stage of completion is measured by reference to the contract costs incurred to date compared to the estimated total costs for the contract.

Significant assumptions are required to estimate total contract costs and the recoverable variation works that affect the stage of completion and the contract revenue respectively. In making these estimates, management has relied on past experience and the work of specialists.

If the estimated total costs for the contract differ by 10% from management's estimates, the Group's profit will decrease/increase by approximately HK$4.3 million and HK$4.3 million respectively.

4. Sales

	Group	
	2012	2011
	HK$'000	HK$'000
IT services, including sales of hardware and software	**54,473**	46,856
Maintenance and support services	**45,623**	27,985
Business process outsourcing	**11,790**	11,088
Total sales	**111,886**	85,929

5. Expenses by nature

	Group	
	2012	2011
	HK$'000	HK$'000
Purchases of hardware and software (Note 15)	**179**	11,352
Depreciation of property, plant and equipment (Note 19)	**278**	303
Employee compensation (Note 6)	**72,813**	54,882
Rental expense on operating leases	**4,567**	4,626
Legal and professional fees	**4,287**	1,336
Repairs and maintenance expenses	**5,001**	4,081
Non-audit fees paid/payable to other auditors *	**26**	64
Other expenses	**11,853**	8,572
Total cost of sales, selling and marketing and administrative expenses	**99,004**	85,216

* Includes the network of member firms of PricewaterhouseCoopers International Limited (PwCIL)

6. Employee compensation

	Group	
	2012	2011
	HK$'000	HK$'000
Wages and salaries	**67,893**	51,358
Employer's contribution to defined contribution plans	**3,412**	3,049
Retirement benefit cost (Note 21)	**628**	515
Provision/(write-back) for long-service payment	**880**	(40)
	72,813	54,882

7. Other income

	Group	
	2012	2011
	HK$'000	HK$'000
Interest income	**469**	228
Write-back of bad debt	**–**	3,120
	469	3,348

In 2011, the Group had successfully recovered the long outstanding debts due from a customer, together with the interests and damages payment, amounting to HK$3,120,000 (US$400,000). This was previously written off in previous years. The customer is a private IT company based in Singapore, where both Mr Lee Wan Lik and Ms Lam Pui Wan, the executive directors of the Company, has 6.5% indirect passive shareholdings respectively therein.

8. Other (losses)/gains - net

	Group	
	2012	2011
	HK$'000	HK$'000
Currency translation (loss)/gain - net	**(476)**	557
Financial assets, available-for-sale		
- Gain on disposal	**14**	–
- Transfer from equity on disposal (Note 24(b)(i))	**(17)**	–
	(3)	–
	(479)	557

9. Income taxes

(a) Income tax expense

	Group	
	2012	2011
	HK$'000	HK$'000
Tax expense/(credit) attributable to profit is made up of:		
- Current income tax - foreign	**2,257**	963
- Deferred income tax (Note 22)	**190**	(23)
	2,447	940
Over provision in prior financial years		
- Current income tax - foreign	**(37)**	(82)
	2,410	858

9. Income taxes (continued)

(a) Income tax expense (continued)

The tax expense on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit/loss of the consolidated companies is as explained below:

	Group	
	2012	2011
	HK$'000	HK$'000
Profit before tax	**12,835**	4,280
Tax calculated at domestic tax rates applicable to profits in the respective countries	**2,209**	1,023
Effects of		
- income not subject to tax	**(45)**	(38)
- temporary differences not recognised	**285**	15
- other	**(2)**	(60)
Tax charge	**2,447**	940

The weighted average applicable tax rate was 16.4% (2011: 17%).

(b) Movements in current income tax liabilities/(assets)

(i) Current income tax assets

	Group	
	2012	2011
	HK$'000	HK$'000
Beginning of financial year	**(980)**	(40)
Currency translation difference	**(2)**	–
Income tax (paid)/refund	**940**	(940)
End of financial year	**(42)**	(980)

(ii) Current income tax liabilities

	Group	
	2012	2011
	HK$'000	HK$'000
Beginning of financial year	**13**	2,185
Over provision in prior financial years	**(37)**	(82)
Income tax paid	**(909)**	(3,053)
Tax expense	**2,257**	963
End of financial year	**1,324**	13

10. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2012	2011
Net profit attributable to equity holders of the Company (HK$'000)	**10,425**	3,422
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	**300,000**	300,000
Basic earnings per share (HK cents per share)	**3.48**	1.14
Diluted earnings per share (HK cents per share)	**3.48**	1.14

Diluted earnings per share is the same as basic earnings per share as there are no dilutive potential ordinary shares as at 31 March 2012 and 31 March 2011.

11. Cash and cash equivalents

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and on hand	**22,245**	19,865	**302**	245
Short-term bank deposits	**47,369**	77,112	**–**	–
	69,614	96,977	**302**	245

For the purpose of presenting the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	Group	
	2012	2011
	HK$'000	HK$'000
Cash and bank balances (as above)	**69,614**	96,977
Less: Bank deposits pledged (Note)	**(7,108)**	(4,204)
Cash and cash equivalents per consolidated statement of cash flows	**62,506**	92,773

Note:

As at 31 March 2012, included in the cash and cash equivalents were bank deposits amounting to HK$7,108,000 (2011: HK$4,204,000) which were not freely available for use by the Group as they have been pledged as securities for the performance bonds and the bank guarantees issued by the banks on behalf of the Group.

11. Cash and cash equivalents (continued)

Short-term bank deposits at the balance sheet date had an average maturity of 35 days (2011: 84 days) from the end of the financial year with the following weighted average effective interest rates:

	Group		Company	
	2012	2011	**2012**	2011
	%	%	**%**	%
Hong Kong Dollar	**1.03**	0.32	**–**	–

12. Trade and other receivables

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables				
- Non-related parties	**6,156**	1,527	**–**	–
Amount due from subsidiaries				
- Non-trade (Note 13)	**–**	–	**59,151**	53,838
Other receivables and deposits	**4,173**	4,453	**–**	–
Prepayments	**3,258**	3,155	**250**	244
	13,587	9,135	**59,401**	54,082

13. Amounts due from/to subsidiaries

The non-trade amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

14. Unbilled revenue on service contracts

	Group	
	2012	2011
	HK$'000	HK$'000
Aggregate contract costs incurred and profits recognised (less losses recognised) to date	**52,945**	40,770
Less: Progress billings	**(9,594)**	(28,175)
	43,351	12,595

15. Inventories

	Group	
	2012	2011
	HK$'000	HK$'000
Hardware and software	**8,028**	159

The cost of inventories used for IT services recognised as an expense and included in "cost of sales" amounts to HK$179,000 (2011: HK$11,352,000).

16. Financial assets, available-for-sale

	Group	
	2012	2011
	HK$'000	HK$'000
Quoted investment funds - Hong Kong		
Beginning of financial year	**765**	758
Fair value gain recognised in other comprehensive income (Note 24)	**–**	7
Gains on disposal (Note 8)	**14**	–
Disposals	**(779)**	–
End of financial year	**–**	765

17. Investment in a joint venture

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity investment at cost				
Beginning of financial year	**37**	180	**37**	180
Additional investment	**–**	195	**–**	195
Allowance for impairment	**–**	–	**(37)**	(338)
Share of losses	**(37)**	(338)	**–**	–
End of financial year	**–**	37	**–**	37

17. Investment in a joint venture (continued)

The following amounts represent the Group's 50% share of the assets and liabilities and expenses of the joint venture which has been accounted for in the consolidated financial statements using the equity method of accounting:

	Group	
	2012	2011
	HK$'000	HK$'000
Assets		
Current assets	**6**	41
Non-current assets	**11**	11
	17	52
Liabilities		
Current liabilities	**(134)**	(15)
Net (liabilities)/assets	**(117)**	37
Income	**2**	142
Expenses	**(156)**	(480)
Net loss	**(154)**	(338)
Share of a joint venture's contingent liabilities incurred jointly with other investors	**–**	–
Contingent liabilities in which the Group is severally liable	**–**	–

Details of the joint venture are as follows:

Name of Company	Country of business/ incorporation	Principal activities	Equity holding	
			2012	2011
			%	%
Great (Bermuda) Island Scientific Ltd [(a)]	Hong Kong/ Bermuda	Sell products relating to provision of computer services, advisory services and maintenance services relating to computer hardware and software and learning management computer systems.	**50**	50

(a) Not required to be audited under the laws of the country of incorporation.

18. Investments in subsidiaries

	Company 2012 HK$'000	Company 2011 HK$'000
Equity investments at cost		
Beginning of financial year	**54,509**	54,509
Allowance for impairment		
Beginning of Financial Year	**(4,016)**	(3,983)
Impairment charge	**(16)**	(33)
	(4,032)	(4,016)
End of financial year	**50,477**	50,493

Impairment charge pertaining to the investment in a subsidiary, Azeus Systems Manila (BVI) Ltd., HK$16,000 (2011: HK$33,000) was included in "administrative expenses" in profit or loss of the Company. The impairment charge arose as the subsidiary incurred losses in the current financial year, causing its estimated recoverable amount to decrease below its carrying amount. The recoverable amount of the asset is its fair value less cost to sell. Fair value less cost to sell is determined by reference to the net amount receivable from the realisation of the subsidiary's assets and the settlement of its liabilities at the end of the financial year.

Details of the subsidiaries are as follows:

Name of subsidiary	Country of business/ incorporation	Principal activities	Equity holding 2012 %	Equity holding 2011 %
Held by the Company				
Azeus Systems Limited [(a)]	Hong Kong	IT consulting, project management and systems implementation	**100**	100
Azeus Systems Manila BVI Ltd. [(b)]	British Virgin Islands	Investment holding	**100**	100
Azeus Systems Philippines Limited [(f)]	Philippines/N.A.	Software development	**N.A**	N.A
Azeus UK Limited [(g)]	United Kingdom	Provision of IT services	**100**	100
BIGontheNet Pte Ltd [(c)]	Singapore	Dormant	**100**	100
Held by the subsidiaries				
Azeus Systems Philippines, Inc. [(d)]	Philippines	Dormant	**100**	100
Azeus Systems (Dalian) Co., Ltd [(e)]	People's Republic of China	Software development	**100**	100

18. Investments in subsidiaries (continued)

N.A. = not applicable

(a) Audited by PricewaterhouseCoopers, Hong Kong.

(b) Not required to be audited under the laws of the country of incorporation.

(c) Audited by PricewaterhouseCoopers LLP, Singapore.

(d) Audited by PricewaterhouseCoopers, Philippines.

(e) Financial year ends on 31 December and audited by Dalian Mingyike Certified Public Accountants Co., Ltd大连明亦科会计师事务所有限公司, an audit firm in the People's Republic of China. There were no significant transactions or events occurring during the period 1 January to 31 March 2012.

(f) Azeus Systems Philippines Limited is a branch of Azeus Systems Manila BVI Ltd., registered in Philippines, and is audited by PricewaterhouseCoopers, Philippines.

(g) Not required to be audited in the 1st year of incorporation.

19. Property, plant and equipment

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer equipment HK$'000	Total HK$'000
Group					
2012					
Cost					
Beginning of financial year	**625**	**1,433**	**211**	**2,167**	**4,436**
Currency translation differences	**4**	**5**	**1**	**8**	**18**
Additions	**–**	**19**	**7**	**151**	**177**
Disposals	**–**	**–**	**–**	**(23)**	**(23)**
End of financial year	**629**	**1,457**	**219**	**2,303**	**4,608**
Accumulated depreciation					
Beginning of financial year	**461**	**1,294**	**74**	**1,982**	**3,811**
Currency translation differences	**3**	**4**	**–**	**7**	**14**
Disposals	**–**	**–**	**–**	**(10)**	**(10)**
Depreciation charge (Note 5)	**48**	**50**	**49**	**131**	**278**
End of financial year	**512**	**1,348**	**123**	**2,110**	**4,093**
Net book value					
End of financial year	**117**	**109**	**96**	**193**	**515**

19. Property, plant and equipment (continued)

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer equipment HK$'000	Total HK$'000
2011					
Cost					
Beginning of financial year	**521**	**1,388**	**145**	**2,100**	**4,154**
Currency translation differences	**22**	**19**	**7**	**8**	**56**
Additions	**82**	**26**	**59**	**59**	**226**
End of financial year	**625**	**1,433**	**211**	**2,167**	**4,436**
Accumulated depreciation					
Beginning of financial year	**404**	**1,208**	**36**	**1,820**	**3,468**
Currency translation differences	**17**	**14**	**2**	**7**	**40**
Depreciation charge (Note 5)	**40**	**72**	**36**	**155**	**303**
End of financial year	**461**	**1,294**	**74**	**1,982**	**3,811**
Net book value					
End of financial year	**164**	**139**	**137**	**185**	**625**

20. Trade and other payables

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Advances received from customers	**4,839**	5,604	**–**	–
Amount due to a subsidiary - non-trade (Note 13)	**–**	–	**104**	104
Other accruals for operating expenses	**11,119**	5,149	**1,190**	1,050
	15,958	10,753	**1,294**	1,154

21. Provision for retirement benefit

The Group has a non-contributory retirement benefit plan (the "Plan") covering substantially all its regular employees in Philippines approved on 17 March 2007. Under the Plan, normal retirement age is 60 years. The retirement plan is intended to provide benefit payments to members with at least 3 years of credited service. The Plan provides a retirement benefit ranging from 175% to 225% of plan salary for every year of credited service.

21. Provision for retirement benefit (continued)

The amount recognised in the balance sheets is determined as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Present value of funded benefit obligations	**4,161**	3,877
Fair value of plan assets	**(3,430)**	(2,585)
	731	1,292
Unrecognised actuarial gains	**952**	147
Liability recognised in balance sheet	**1,683**	1,439

The movement in the defined benefit obligation is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Beginning of financial year	**3,877**	3,037
Currency translation differences	**23**	143
Interest cost	**347**	271
Current service cost	**393**	337
Actuarial (gains)/losses	**(479)**	89
End of financial year	**4,161**	3,877

The movement in the fair value of plan assets is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Beginning of financial year	**2,585**	2,105
Currency translation differences	**25**	96
Expected return on plan assets	**112**	93
Contributions paid	**384**	337
Actuarial gains/(losses)	**324**	(46)
End of financial year	**3,430**	2,585

21. Provision for retirement benefit (continued)

The amounts recognised in profit or loss are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Current service cost	**393**	337
Interest cost	**347**	271
Expected return on plan assets	**(112)**	(93)
Included in "administrative expenses"	**628**	515

Experience adjustments on retirement benefit obligation and plan assets for the financial year ended 31 March 2012 amounted to a loss of HK$643,000 (2011: HK$202,000) and a gain of HK$324,000 (2011: loss of HK$46,000) respectively.

The movement in the provision for retirement benefit is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Beginning of financial year	**1,439**	1,206
Currency translation differences	**–**	55
Charged to profit or loss (Note 6)	**628**	515
Contributions paid	**(384)**	(337)
End of financial year	**1,683**	1,439

The principal actuarial assumptions used were as follows:

	Group	
	2012	2011
Discount rate	**6%**	9%
Expected return on plan assets	**5%**	4%
Future salary increases	**5%**	5%
Average remaining working life in years	**30.6**	30.9
Average years of past service	**7.3**	6.9

The expected return on plan assets was determined by considering the expected returns used by the local Philippines banks on projected market yields of comparable investments.

The actual return on plan assets was HK$435,000 (2011: HK$47,000).

Expected contribution to the plan for the financial year ending 31 March 2013 is HK$393,000.

22. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheets as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Deferred income tax assets:		
- to be recovered after one year	**(192)**	(382)

Movement in deferred income tax account is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Beginning of financial year	**(382)**	(352)
Currency translation differences	**–**	(7)
Tax charged/(credited) to profit or loss (Note 9)	**190**	(23)
End of financial year	**(192)**	(382)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$9,905,000 (2011: HK$8,710,000) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by the company with unrecognised tax losses in its country of incorporation. The tax losses have no expiry date.

The movement in deferred income tax assets is as follows:

Group

Deferred income tax assets

	Tax losses HK$'000	**Retirement benefits HK$'000**	**Other HK$'000**	**Total HK$'000**
2012				
Beginning of financial year	(43)	(108)	(231)	(382)
Charged / (credited) to profit or loss	43	(24)	171	190
End of financial year	–	(132)	(60)	(192)
2011				
Beginning of financial year	(43)	(86)	(223)	(352)
Currency translation differences	–	(4)	(3)	(7)
Credited to profit or loss	–	(18)	(5)	(23)
End of financial year	(43)	(108)	(231)	(382)

23. Share capital

	Issued share capital	
	No. of ordinary shares '000	HK$'000
Group and Company		
2012 and 2011		
Beginning and end of financial year	300,000	46,800

The total number of authorised ordinary shares is 400 million shares (2011: 400 million shares). All issued ordinary shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

24. Other reserves

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
(a) Composition:				
Fair value reserve	**–**	(17)	**–**	–
Employee share-based payment reserve	**1,328**	1,328	**–**	–
	1,328	1,311	**–**	–
(b) Movements:				
(i) Fair value reserve				
Beginning of financial year	**(17)**	(24)	**–**	–
Financial assets, available-for-sale				
- Fair value gains (Note 16)	**–**	7	**–**	–
- Transfer to profit or loss on disposal (Note 8)	**17**	–	**–**	–
End of financial year	**–**	(17)	**–**	–
(ii) Employee share-based payment reserve				
Beginning and end of financial year	**1,328**	1,328	**–**	–

25. Retained profits

Movement in retained profits for the Company is as follows:

	Company	
	2012	2011
	HK$'000	HK$'000
Beginning of financial year	**177**	8,078
Net profit	**8,605**	2,516
Dividends paid (Note 26)	**(3,422)**	(10,417)
End of financial year	**5,360**	177

26. Dividends

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Ordinary dividends paid		
Final dividend paid in respect of the previous financial year of HK1.14 cents (2011: HK3.47 cents) per share (Note 25)	**3,422**	10,417

At the Annual General Meeting on 11 July 2012, a final dividend of HK3.48 cents per share amounting to a total of HK$10,440,000 will be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 March 2013.

27. Commitments

Operating lease commitments

The Group leases office premises from non-related parties under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

The future minimum lease payables under non-cancellable operating leases contracted for at the balance sheet date but not recognised as liabilities, are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Not later than one year	**4,306**	4,099
Between one and five years	**1,273**	5,326
	5,579	9,425

28. Financial risk management

Financial risk factors

The Group's activities expose it to market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk since the previous financial year.

The Group's exposures to financial risks are set out below.

(a) Market risk

(i) Currency risk

The Group operates in Asia and Europe with dominant operations in Hong Kong, the People's Republic of China, the Philippines and the United Kingdom. Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies") such as the Hong Kong Dollar ("HKD"), Chinese Yuan or Renminbi ("RMB"), Philippine Peso ("PESO") and Great Britain Pound ("GBP").

Currency risk arises within entities in the Group when transactions are denominated in foreign currencies. The Group is exposed to currency risk on sales and purchases that are denominated primarily in United States Dollar ("USD"). In addition, the Group is exposed to currency translation risk on the net assets in foreign operations.

The Group manages currency risk by matching assets and liabilities in the same currency denomination and supplemented with appropriate financial instruments where necessary.

28. Financial risk management (continued)

(a) Market risk (continued)

(i) *Currency risk* (continued)

The Group's currency exposure based on the information provided to key management is as follows:

	HKD HK$'000	USD HK$'000	SGD HK$'000	RMB HK$'000	PESO HK$'000	AUD HK$'000	GBP HK$'000	Total HK$'000
2012								
Financial assets								
Cash and cash equivalents	63,294	788	1,117	474	1,492	50	2,399	69,614
Financial assets, available-for-sale	–	–	–	–	–	–	–	–
Unbilled revenue on service contracts	42,857	494	–	–	–	–	–	43,351
Trade and other receivables excluding prepayments, amount due from a joint venture, and refundable deposits	8,019	57	–	37	2,425	–	210	10,748
	114,170	1,339	1,117	511	3,917	50	2,609	123,713
Financial liabilities								
Other financial liabilities	(8,665)	–	(1,040)	(7)	(1,276)	–	(131)	(11,119)
	(8,665)	–	(1,040)	(7)	(1,276)	–	(131)	(11,119)
Net financial assets	105,505	1,339	77	504	2,641	50	2,478	112,594
Less: Net financial assets denominated in the respective entities' functional currencies	(105,623)	–	(746)	(504)	(2,641)	–	(2,473)	
Currency exposure on financial assets/ (liabilities) net of those denominated in the respective entities' functional currencies	(118)	1,339	(669)	–	–	50	5	

28. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	HKD HK$'000	USD HK$'000	SGD HK$'000	RMB HK$'000	PESO HK$'000	AUD HK$'000	GBP HK$'000	Total HK$'000
2011								
Financial assets								
Cash and cash equivalents	87,985	5,113	1,113	883	1,506	50	327	96,977
Financial assets, available-for-sale	–	765	–	–	–	–	–	765
Unbilled revenue on service contracts	11,553	1,042	–	–	–	–	–	12,595
Trade and other receivables excluding prepayments , amount due from a joint venture, and refundable deposits	3,746	5	–	36	2,485	–	–	6,272
	103,284	6,925	1,113	919	3,991	50	327	116,609
Financial liabilities								
Other financial liabilities	(2,787)	–	(981)	(7)	(1,374)	–	–	(5,149)
	(2,787)	–	(981)	(7)	(1,374)	–	–	(5,149)
Net financial assets	100,497	6,925	132	912	2,617	50	327	111,460
Less: Net financial assets denominated in the respective entities' functional currencies	(100,486)	–	(768)	(912)	(2,617)	–	(327)	
Currency exposure on financial assets/ (liabilities) net of those denominated in the respective entities' functional currencies	11	6,925	(636)	–	–	50	–	

28. Financial risk management (continued)

(a) Market risk (continued)

(i) *Currency risk* (continued)

The Company's currency exposure based on the information provided to key management is as follows:

	HKD HK$'000	USD HK$'000	SGD HK$'000	GBP HK$'000	Total HK$'000
2012					
Financial assets					
Cash and cash equivalents	16	39	247	–	302
Trade and other receivables excluding prepayments	58,368	16	640	127	59,151
	58,384	55	887	127	59,453
Financial liabilities					
Other financial liabilities	(254)	–	(1,040)	–	(1,294)
	(254)	–	(1,040)	–	(1,294)
Net financial assets	58,130	55	(153)	127	58,159
Less: Net financial assets denominated in the Company's functional currency	(58,130)	–	–	–	
Currency exposure on financial assets/ (liabilities) net of those denominated in the Company's functional currency	–	55	(153)	127	
2011					
Financial assets					
Cash and cash equivalents	16	39	190	–	245
Trade and other receivables excluding prepayments	53,055	15	640	128	53,838
	53,071	54	830	128	54,083
Financial liabilities					
Other financial liabilities	(204)	–	(950)	–	(1,154)
	(204)	–	(950)	–	(1,154)
Net financial assets	52,867	54	(120)	128	52,929
Less: Net financial assets denominated in the Company's functional currency	(52,867)	–	–	–	
Currency exposure on financial assets/ (liabilities) net of those denominated in the Company's functional currency	–	54	(120)	128	

28. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

As at 31 March 2012 and 2011, the net financial assets/(liabilities) denominated in a currency other than the respective functional currencies of the Group entities are mainly in USD. Since HKD and USD are pegged, no significant change in the net financial assets/(liabilities) position is expected from any changes on the exchange rate between the HKD and USD. Hence, the Group's and Company's currency exposure is insignificant and no foreign currency sensitivity analysis is performed accordingly.

(ii) Cash flow and fair value interest rate risks

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Group's and the Company's exposure to market risk for changes in interest rates relates primarily to the Group's cash and cash equivalents placed with banks and financial institutions in Hong Kong and Singapore.

Most of the interest bearing cash and cash equivalents placed with the banks are short-term in nature (Note 11). Variation in short-term interest rate is not expected to have a material impact on the results of the Group.

The sensitivity analysis below have been determined based on the exposure to interest rates for cash and cash equivalents placed with banks and financial institutions in Hong Kong and Singapore at the balance sheet date. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher/lower with all other variables held constant, the Group's profit for the year ended 31 March 2012 would increase/decrease by approximately HK$236,000 (2011: increase/decrease by approximately HK$386,000). No analysis is prepared at the Company level as the sensitivity is immaterial.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and of the Company are bank deposits and trade receivables. The Group adopts the policy of only dealing with creditworthy counterparties to mitigate the risk of financial losses from default.

Credit risk is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Group obtains collateral from its customers. Cash terms, advance payments and letter of credits are required for customers of lower credit standing. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Group's trade receivables comprise 6 debtors (2011: 5 debtors) with Hong Kong's government sector.

As at year-end, the Group does not hold any collateral. The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

28. Financial risk management (continued)

(b) Credit risk (continued)

The credit risk for trade receivables based on the information provided to key management is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
By geographical areas				
Hong Kong	**5,945**	1,527	**–**	–
Other countries	**211**	–	**–**	–
	6,156	1,527	**–**	–
By types of customers				
Non-related parties				
- Public sector	**6,128**	402	**–**	–
- Other companies	**28**	1,125	**–**	–
	6,156	1,527	**–**	–

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

The Group's trade receivables not past due does not include receivables that would have been past due or impaired if the terms were not re-negotiated during the financial year. Other financial assets that are neither past due nor impaired consist primarily of advances to employees that are collected through salary deductions and other receivable in which the Group has the right to collect in the next twelve months.

(ii) Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Past due < 3 months	**–**	25	**–**	–
Past due 3 to 6 months	**–**	–	**–**	–
	–	25	**–**	–

28. Financial risk management (continued)

(b) Credit risk (continued)

(ii) Financial assets that are past due and/or impaired (continued)

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Gross amount	**231**	–	**–**	–
Less: Allowance for impairment	**(231)**	–	**–**	–
	–	–	**–**	–
Beginning of financial year	**–**	–	**–**	–
Allowance utilised	**(231)**	–	**–**	–
End of financial year	**–**	–	**–**	–

(c) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of fund. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group relies on its internal working capital to fund most of its operating and investing activities. The liquidity risk of the Group is minimal as it maintains sufficient liquid funds to meet their normal operating activities without using bank or other borrowings.

As at 31 March 2012 and 2011, all financial liabilities of the Group and Company have a maturity date of less than one year.

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optional capital structure, the Group may issue new shares, obtain new borrowings or sell assets to reduce borrowings.

The Group employs shareholders' equity only and does not have any borrowings.

(e) Fair value measurements

The following table presents assets and liabilities measured at fair value and classified by level of the following fair value measurement hierarchy:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(ii) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and

(iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

28. Financial risk management (continued)

(e) Fair value measurements (continued)

The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values.

(f) Financial Instruments by category

The carrying amounts of the financial assets measured at fair value (available-for-sale and fair value through profit and loss) are disclosed on the face of the consolidated balance sheet in Note 16.

	Group	
	2012	2011
	HK$'000	HK$'000
Quoted investment funds – Hong Kong	**–**	765

29. Immediate and ultimate holding corporation

The Company's immediate and ultimate holding corporation is Mu Xia Ltd., incorporated in Bermuda.

30. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

Key management personnel compensation

Key management personnel compensation is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**3,912**	3,669
Post-employment benefits	**280**	145
	4,192	3,814

Included in the above is total compensation to directors of the Company amounting to HK$1,306,000 (2011: HK$1,285,000).

31. Segmental information

Management has determined the operating segments based on the reports reviewed by the Executive Committee ("Exco") that are used to make strategic decisions. The Exco comprised the Chief Executive Officer and the Group Financial Controller.

31. Segmental information (continued)

The Exco considers the Group as a single operating segment which is primarily engaged in the provision of information technology ("IT") services. The services are similar in nature and these are based on the same backbone infrastructure. The costs are mainly staff costs incurred to provide IT services to customers. There are 3 major revenue streams: "IT services, including sales of hardware and software", "Maintenance and Support Services" and "Business Process Outsourcing".

IT services, including sales of hardware and software: This includes revenue arising from contract specifically negotiated for the provision of IT services, including sales of hardware and software products as required under the relevant contract terms.

Maintenance and Support Services: This includes revenue arising from provision of maintenance and support services to customers.

Business Process Outsourcing: This includes revenue arising from outsourcing of headcount for provision of IT support services to customers.

The composition of the Group's revenue by sales is the same as that disclosed in Note 4.

As the reports reviewed by the Exco have been prepared on the same basis as the financial statements, there are no reconciling items to be disclosed.

The holding company is domiciled in Bermuda with no revenue arising from the country of domicile. Majority of the Group's revenues from external customers are attributed to business activities in Hong Kong.

Revenues of HK$108,851,000 (2011: HK$83,355,000) from external customers are derived from the provision of IT services to the public sector of Hong Kong Government.

32. Contingent Events and Liabilities

In November 2007, the Group secured an IT service contract for a one-off implementation of an IT system worth HK$60.7 million. However, the customer and the Group formed different views towards the interpretation of requirements within the contract. As instructed by the customer, the Group subsequently agreed to continue implementing the system with the inclusion of the disputed items while reserving its rights and remedies. In FY 2011, the system was delivered and accepted by the customer. The original sum of HK$60.7 million was fully settled and all the implementation cost of the system together with the disputed items were incurred and recognised.

Both parties agreed to accept the resolution of the dispute by arbitration. The arbitration process has since commenced and a hearing had been scheduled in November 2012. All the associated project costs had been recognised in the prior years and legal fee expense has also been recognised as and when incurred. No contingent asset or contingent liability is recognised as management is of the view this is still in early discovery stage and it is premature to foretell the likely outcome.

33. New or revised accounting standards and interpretations

Below are the mandatory standards, amendments and interpretations to existing standards that have been published, and are relevant for the Group's accounting periods beginning on or after 1 April 2012 or later periods and which the Group has not early adopted:

- FRS 19 (revised 2011) Employee Benefits (effective for annual periods beginning on or after 1 January 2013)
- FRS 27 (revised 2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- FRS 28 (revised 2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2013)
- FRS 110 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013)
- FRS 111 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013)
- FRS 112 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2013)
- FRS 113 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013)

The management anticipates that the adoption of the above FRSs, INT FRSs and amendments to FRS in the future periods will not have a material impact on the financial statements of the Group and of the Company in the period of their initial adoption.

34. Authorisation of financial statements

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Azeus Systems Holdings Ltd. on 11 June 2012.

STATISTICS OF SHAREHOLDINGS
As at 8 June 2012

AUTHORISED SHARE CAPITAL	:	HK$400 MILLION
ISSUED AND FULLY PAID-UP CAPITAL	:	HK$46,800,000
NUMBER ISSUED SHARES	:	300 MILLION
CLASS OF SHARES	:	ORDINARY SHARE
VOTING RIGHTS	:	ONE VOTE PER SHARE

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 999	2	0.35	3	0.00
1,000 - 10,000	309	53.83	1,541,000	0.51
10,001 - 1,000,000	249	43.38	26,931,671	8.98
1,000,001 AND ABOVE	14	2.44	271,527,326	90.51
TOTAL	574	100.00	300,000,000	100.00

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	MU XIA LTD	153,000,000	51.00
2	LEE WAN LIK	80,321,326	26.77
3	LAM PUI WAN	14,000,000	4.67
4	KHOO TEIK LIANG	5,590,000	1.86
5	LIM CHEE NEO	3,417,000	1.14
6	ONG KIM KIAT	3,190,000	1.06
7	NOMURA SINGAPORE LIMITED	2,500,000	0.83
8	TSAO SAN	2,285,000	0.76
9	LIM & TAN SECURITIES PTE LTD	1,410,000	0.47
10	TAN JUI YAK	1,345,000	0.45
11	LIM GUAN TECK	1,212,000	0.40
12	CHOOI SIEW THIM	1,201,000	0.40
13	THAM WAI FONG	1,037,000	0.35
14	LEE THIAM HOCK THOMAS	1,019,000	0.34
15	LING KIM CHYE	941,000	0.31
16	LIM GUAN CHIANG ALBERT	850,000	0.28
17	TAO WING HONG	789,751	0.26
18	SUE YAP SOH MOOI	714,000	0.24
19	UOB KAY HIAN PTE LTD	688,000	0.23
20	HE JIANZHONG	660,000	0.22
	TOTAL	276,170,077	92.04

SUBSTANTIAL SHAREHOLDERS

(as recorded in the Register of Substantial Shareholders)

NAME	NO. OF SHARES HELD AS DIRECT	%	NO. OF SHARES HELD AS DEEMED	%
Mr Lee Wan Lik	80,321,326	26.77	153,000,000	51.00
Ms Lam Pui Wan	14,000,000	4.67	153,000,000	51.00
Mu Xia Ltd.	153,000,000	51.00	–	–

Mr Lee Wan Lik and Ms Lam Pui Wan, holding shareholding interests of 10% and 90% respectively in Mu Xia Ltd., are deemed interested in the 153,000,000 shares held by Mu Xia Ltd.

PUBLIC FLOAT

Based on the information available to the Company as at 8 June 2012, approximately 17.56% of the issued ordinary shares of the Company is held by the public. The Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held on Wednesday, 11 July 2012 at 10 a.m. at Amber Room, Level 2, Sheraton Towers Singapore, 39 Scotts Road, Singapore 228230 to transact the following business:

As Ordinary Business

1. To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 March 2012, together with the Reports of the Directors and Auditors thereon.

2. To declare a First & Final dividend of 3.48 HK cents per ordinary share for the financial year ended 31 March 2012. [2011: 1.14 HK cents]

3. To approve the payment of Directors' Fees of S$75,000 for the financial year ended 31 March 2012. [2011: S$75,000]

4. To re-elect Lee Wan Lik, a Director who retires pursuant to Article 104 of the Company's Bye-Laws.
[See Explanatory Note (i)]

5. To re-elect Michael Yap Kiam Siew, a Director who retires pursuant to Article 104 of the Company's Bye-Laws.
[See Explanatory Note (ii)]

6. To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors and to authorize the Directors to fix their remuneration.

As Special Business

To consider and if deemed fit to pass the following Ordinary Resolution with or without modifications:-

7. **Share Issue Mandate**

THAT pursuant to Rule 806 of the Listing Manual of Singapore Exchange Securities Trading Limited ("SGX-ST"), authority be and is hereby given to the Directors of the Company to allot and issue whether by way of rights, bonus or otherwise (i) shares; (ii) convertible securities; (iii) additional convertible securities (where an adjustment to the number of convertible securities to which a holder is originally entitled to, is necessary as a result of any rights, bonus or other capitalization issues by the Company), notwithstanding that such authority may have ceased to be in force at the time such additional convertible securities are issued, provided that the adjustment does not give the holder of the convertible securities a benefit that a shareholder does not receive; and/or (iv) shares arising from the conversion of securities in (ii) and additional convertible securities in (iii) above, notwithstanding that such authority may have ceased to be in force at the time the shares are to be issued, and any such issue may be made at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit, PROVIDED THAT:-

(i) the aggregate number of shares and convertible securities to be issued pursuant to this resolution shall not exceed 50% of the total number of the issued shares (excluding treasury shares) of the Company, of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders of the Company shall not exceed 20% of the total number of the issued shares (excluding treasury shares) of the Company;

(ii) subject to such manner of calculation as may be prescribed by the SGX-ST, for the purpose of this Resolution, the percentage of the issued share capital shall be based on the Company's total number of the issued shares (excluding treasury shares) at the time this resolution is passed, after adjusting for:

(a) new shares arising from the conversion or exercise of any convertible securities;

(b) new shares arising from exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and

(c) any subsequent bonus issue, consolidation or subdivision of shares;

(iii) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye-Laws for the time being of the Company; and

(iv) (Unless revoked or varied by the Company in a general meeting) such authority shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier. **[See Explanatory Note (iii)]**

8. **Authority to allot and issue shares under the AZEUS EMPLOYEE SHARE Option Scheme**

THAT the Directors of the Company be and are hereby authorized to offer and grant options in accordance with the provisions of the Azeus Employee Share Option Scheme (the "Scheme") and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options under the Scheme provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed fifteen per cent (15%) of the total number of the issued shares (excluding treasury shares) of the Company from time to time. **[See Explanatory Note (iv)]**

9. To transact any other business that may properly be transacted at an Annual General Meeting.

By Order of the Board

Yap Wai Ming / Lean Min-Tze
Joint Company Secretaries

Singapore, 27 June 2012

Explanatory Notes

(i) **Resolution 4**, Mr Lee Wan Lik, if re-elected, will remain as Managing Director and a Member of the Nominating Committee.

(ii) **Resolution 5**, Michael Yap Kiam Siew, if re-elected, will remain as Chairman of the Remuneration Committee and a Member of the Audit Committee and a member of the Nominating Committee.

(iii) **Resolution 7**, if passed, will authorize the Directors of the Company to allot and issue shares and convertible securities in the capital of the Company up to an amount not exceeding 50% of the total number of issued shares of the Company (excluding treasury shares), of which up to 20% may be issued other than on a pro-rata basis to the shareholders of the Company. The Company cannot rely on the authority given under Resolution 7 for an issue of convertible securities if the maximum number of shares to be issued upon conversion cannot be determined at the time of issue of the convertible securities.

(iv) **Resolution 8**, if passed, will authorize the Directors to offer and grant options in accordance with the provisions of the Azeus Employee Share Option Scheme (the "Scheme") and to allot and issue shares under the Scheme up to an amount not exceeding 15% of the total number of issued shares (excluding treasury shares) of the Company from time to time.

Notes:

1. A member entitled to attend and vote at the Annual General Meeting may appoint not more than two proxies to attend and vote on his behalf and where a member appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the Member Proxy Form. A proxy need not be a member of the Company. The instrument appointing a proxy must be deposited at the office of the Company's Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 not less than 48 hours before the time set for the holding of the Annual General Meeting.

2. If a Shareholder being a Depositor whose name appears in the Depository Register wishes to attend and vote at the Annual General Meeting then he/she/it should complete the Proxy Form and deposit the duly completed Proxy Form at the office of the Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 not later than 48 hours before the time set for the holding of the Annual General Meeting.

NOTICE OF BOOKS CLOSURE AND DIVIDEND PAYMENT DATE

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of the Company will be closed on 25 July 2012 after 5.00 p.m. for the purpose of determining Members' entitlements to the Proposed First & Final Dividend of 3.48 HK cents per ordinary share (the "Proposed First & Final Dividend").

Duly completed registrable transfers in respect of shares in the Company received up to the close of business at 5.00 p.m. on 25 July 2012 by the Company's Share Registrar, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 will be registered to determine members' entitlements to the Proposed First & Final Dividend. Members whose securities accounts with The Central Depository (Pte) Limited are credited with shares in the capital of the Company as at 5.00 p.m. on 25 July 2012 will be entitled to the Proposed First & Final Dividend.

The Proposed First & Final Dividend, if approved by members at the forthcoming Annual General Meeting to be held on 11 July 2012, will be paid on 8 August 2012.

By Order of the Board

Yap Wai Ming / Lean Min-Tze
Joint Company Secretaries

Singapore, 27 June 2012