

**AZEUS SYSTEMS HOLDINGS LTD.**

(Company registration no. 35312)

**Unaudited Half Year Financial Statement and Dividend Announcement for the period ended 30 September 2005**

**Part 1 – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF HALF YEAR RESULTS**

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

Azeus Systems Holdings Ltd. (the “Company”) was incorporated in Bermuda on 10 May 2004 and was listed on the SGX Main Board on 22 October 2004. The Company and its subsidiaries are referred to as the “Group”. The Company’s financial year-end is 31 March.

**Azeus Systems Holdings Ltd.**

**Group Income Statement for the first half year ended 30 September 2005**

**(Expressed in Hong Kong Dollars)**

	<u>The Group</u>		
	1 <sup>st</sup> Half FY2006	1 <sup>st</sup> Half FY2005	+ / ( - )
	(Apr-Sept 2005)	(Apr-Sept 2004)	
	HK\$'000	HK\$'000	%
Sales	37,342	21,795	71%
Cost of sales	(18,967)	(14,130)	34%
	=====	=====	
Gross profit	18,375	7,665	140%
Other operating income	980	9	10,789%
Selling and marketing expenses	(3,449)	(2,081)	66%
Administrative and other operating expenses	(7,693)	(3,924)	96%
	=====	=====	
Profit before tax	8,213	1,669	391%
Income tax expense	(1,437)	(343)	319%
	=====	=====	
Net profit	6,776	1,326	410%
	=====	=====	
Earnings per share (basic and diluted)	HK\$ 0.023	HK\$ 0.006	
	=====	=====	

**Azeus Systems Holdings Ltd.**  
**Group Income Statement for the first half year ended 30 September 2005**  
**(Expressed in Hong Kong Dollars)**

<b>Note 1</b>			
Profit from operations is derived after crediting/(charging) the following items:-			
Depreciation	(412)	(439)	(6%)
Unrealised loss on other investments	(115)	(269)	(57%)
Net foreign exchange (loss)/gain	(283)	29	1,076%
Bank interest received	849	9	9,333%
Dividend income from other investments	131	0	N/A

**Notes: N/M = Not Meaningful**

**N/A = Not Applicable**

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

**Azeus Systems Holdings Ltd.  
Balance Sheet as at 30 September 2005  
(Expressed in Hong Kong Dollars)**

	<u>The Group</u>			<u>The Company</u>		
	30 Sept 2005	31 Mar 2005	+ / ( - )	30 Sept 2005	31 Mar 2005	+ / ( - )
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
<b>Current assets</b>						
Cash and cash equivalents	57,198	83,578	(32%)	11,324	73,725	(85%)
Pledged bank deposits	1,500	1,500	-	-	-	-
Trade and other receivables	2,962	2,660	11%	-	26	N/M
Amount due from a shareholder	-	29	(100%)	-	29	(100%)
Amount due from subsidiaries (non trade)	-	-	-	51,085	5,151	892%
Unbilled revenue on service contracts	42,928	24,570	75%	-	-	-
Inventories	3,201	3,306	(3%)	-	-	-
Tax recoverable	3,039	1,563	94%	-	-	-
Other investments	4,131	4,246	(3%)	-	-	-
	—————	—————		—————	—————	
	<b>114,959</b>	<b>121,452</b>	<b>(5%)</b>	<b>62,409</b>	<b>78,931</b>	<b>(21%)</b>
<b>Non-current assets</b>						
Property, plant and equipment	1,586	1,492	6%	-	-	-
Goodwill	939	939	N/M	-	-	-
Subsidiaries	-	-	-	41,510	39,183	6%
Deferred tax asset	83	96	(14%)	-	-	-
	—————	—————		—————	—————	
	2,608	2,527	3%	41,510	39,183	6%
	—————	—————		—————	—————	
<b>Total assets</b>	<b>117,567</b>	<b>123,979</b>	<b>(5%)</b>	<b>103,919</b>	<b>118,114</b>	<b>(18%)</b>
	—————	—————		—————	—————	

**Azeus Systems Holdings Ltd.**  
**Balance Sheet as at 30 September 2005**  
**(Expressed in Hong Kong Dollars)**

	<u>The Group</u>			<u>The Company</u>		
	30 Sept 2005	31 Mar 2005	+ / ( - )	30 Sept 2005	31 Mar 2005	+ / ( - )
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
<b>Current liabilities</b>						
Trade and other payables	2,961	2,718	9%	-	564	(100%)
Amount due to a subsidiary (non trade)	-	-	-	-	104	(100%)
Advances from customers	2,603	3,676	(29%)	-	-	-
Current tax liabilities	1,453	-	N/M	-	-	-
	=====	=====		=====	=====	
	<b>7,017</b>	<b>6,395</b>	<b>(10%)</b>	<b>-</b>	<b>668</b>	<b>(100%)</b>
<b>Non-current liability</b>						
Deferred tax liabilities	130	130	-	-	-	
	=====	=====		=====	=====	
<b>Total liabilities</b>	<b>7,147</b>	<b>6,525</b>	<b>(10%)</b>	<b>-</b>	<b>668</b>	<b>(100%)</b>
	=====	=====		=====	=====	
<b>Net assets</b>	<b>110,420</b>	<b>117,454</b>	<b>(6%)</b>	<b>103,919</b>	<b>117,446</b>	<b>(12%)</b>
	=====	=====		=====	=====	
<b>REPRESENTED BY:</b>						
Share capital	46,800	46,800	-	46,800	46,800	-
Share premium	56,489	56,489	-	56,726	56,726	-
Reserves	7,131	14,165	(50%)	393	13,920	97%
	=====	=====		=====	=====	
	<b>110,420</b>	<b>117,454</b>	<b>(6%)</b>	<b>103,919</b>	<b>117,446</b>	<b>(12%)</b>

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

The Group had no bank borrowings or debt securities as at 30 September 2005 and 31 March 2005.

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

	<u>The Group</u>	
	<b>1st Half FY2006</b>	<b>1st Half FY2005</b>
	<b>(Apr-Sept 2005)</b>	<b>(Apr-Sept 2004)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Cash flows from operating activities</b>		
Profit before tax	8,213	1,669
Adjustment for:		
Unrealised loss on other investments	115	269
Depreciation	412	439
Interest income	(849)	(9)
Dividend income	(131)	-
Exchange difference	(43)	-
	<hr/>	<hr/>
Operating cash flow before working capital change	7,717	2,368
Change in operating assets and liabilities:		
Trade receivables and other receivables	(273)	17,096
Unbilled revenue on service contracts	(18,358)	(8,777)
Inventories	105	-
Trade payables and other payables	259	184
Advances from customers	(1,073)	(599)
Amounts due to directors	-	(84)
	<hr/>	<hr/>
Cash (outflow)/inflow from operations	(11,623)	10,188
Income tax paid	(1,476)	(1,138)
	<hr/>	<hr/>
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(13,099)</b>	<b>9,050</b>
	<hr/>	<hr/>

	<u><b>The Group</b></u>	
	<b>1st Half FY2006</b>	<b>1st Half FY2005</b>
	<b>(Apr-Sept 2005)</b>	<b>(Apr-Sept 2004)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(506)	(412)
Decrease in pledged bank deposits	-	(4)
Interest received	849	9
Dividend received	131	-
Dividends paid to shareholders	(13,755)	-
Purchase of other investments	-	(2,610)
	<hr/>	<hr/>
<b>Net cash outflow from investing activities</b>	<b>(13,281)</b>	<b>(3,017)</b>
<b>Cash flows from financing activities</b>		
Issue of share capital	-	94
	<hr/>	<hr/>
<b>Net cash inflow from financing activities</b>	<b>-</b>	<b>94</b>
<b>Net (decrease)/increase in cash and cash equivalents held</b>	<b>(26,380)</b>	<b>6,127</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>83,578</b>	<b>10,788</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period</b>	<b>57,198</b>	<b>16,915</b>
	<hr/>	<hr/>

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

	Share Capital	Share Premium	Exchange Translation Reserve	Statutory Reserve	Retained Profits	Merger Reserve	Total
<u>Group</u>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 April 2005	46,800	56,489	(7)	112	14,060	-	117,454
Currency translation difference	-	-	(55)	-	-	-	(55)
FY2005 final dividend paid	-	-	-	-	(13,755)	-	(13,755)
Net profit for the period	-	-	-	-	6,776	-	6,776
<b>Balance as at 30 September 2005</b>	<b>46,800</b>	<b>56,489</b>	<b>(62)</b>	<b>112</b>	<b>7,081</b>	<b>-</b>	<b>110,420</b>
Balance as at 1 April 2004*	142	-	3	112	34,986	-	35,243
Issue of shares	94	-	-	-	-	-	94
Issue of shares pursuant to restructuring exercise in exchange for shares of the subsidiaries	35,006	237	-	-	-	-	35,243
Adjustment arising from restructuring exercise **	(142)	-	(3)	(112)	(34,986)	-	(35,243)
Net profit for the period	-	-	-	-	1,326	-	1,326
	-	-	-	-			-
Balance as at 30 September 2004	35,100	237	-	-	1,326	-	36,663

	Share Capital	Share Premium	Exchange Translation Reserve	Statutory Reserve	Retained Profits	Merger Reserve	Total
<u>Company</u>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 April 2005	46,800	56,726	-	-	13,920	-	117,446
FY2005 final dividend paid	-	-	-	-	(13,755)	-	(13,755)
Net profit for the period	-	-	-	-	228	-	228
	=====	=====	=====	=====	=====	=====	=====
<b>Balance as at 30 September 2005</b>	<b>46,800</b>	<b>56,726</b>	<b>-</b>	<b>-</b>	<b>393</b>	<b>-</b>	<b>103,919</b>
	=====	=====	=====	=====	=====	=====	=====
Balance as at 10 May 2004 (date of incorporation)	94	-	-	-	-	-	94
Issue of shares pursuant to restructuring exercise in exchange for shares of the subsidiaries	35,006	237	-	-	-	-	35,243
	=====	=====	=====	=====	=====	=====	=====
Balance as at 30 September 2004	35,100	237	-	-	-	-	35,337
	=====	=====	=====	=====	=====	=====	=====

*\* These balances represent the share capital, exchange reserve, statutory reserve and retained profits of the subsidiaries prior to the restructuring exercise.*

*\*\* The adjustments arising from the restructuring exercise represent the excess of the nominal value of shares issued by the Company over the nominal value of shares acquired in exchange for those shares, accounted for using the pooling-of-interest method.*



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

Not applicable.

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

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

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

Not applicable.

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

For FY 2006, the Group and the Company adopted those Singapore Financial Reporting Standards ("FRS") which came into effect from financial years beginning on or after 1 July 2004 and 1 January 2005.

Except for the adoption of the new and revised FRS, the Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting financial period compared with the financial statements for FY 2005.

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

In previous year, goodwill was amortised on a straight-line basis over its estimated useful life of three years. Under FRS 103 – Business Combination, goodwill acquired in a business combination to be measured at cost less any accumulated impairment losses. Goodwill shall no longer be amortised, instead, impairment is tested annually, or more frequently if events or changes in circumstances indicate that the goodwill might be impaired.

There are no significant impacts on the Group's financials arising from the effects of the implementation of the new and revised standards on net profit, net tangible assets and opening retained profits of the Group and of the Company.

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

	<u><b>The Group</b></u>	
	<b>1st Half FY2006</b>	<b>1st Half FY2005</b>
Net profit of the Group (HK\$'000)	6,776	1,326
Weighted average number of shares	300,000,000	225,000,000
- Basic earnings per share (HK\$)	0.023	0.006
- Fully diluted earnings per share (HK\$)	0.023	0.006

Basic earnings per share for FY2005 are calculated by dividing the net profit for the financial period by the pre-invitation number of ordinary shares of 225,000,000.

Fully diluted earnings per share are similar to the basic earnings per share as the Group did not have any potential dilutive ordinary shares outstanding as at the period end.

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

	<u>The Group</u>		<u>The Company</u>	
	30 Sept 2005	31 March 2005	30 Sept 2005	31 March 2005
	HK\$	HK\$	HK\$	HK\$
Net asset value per ordinary share based on the existing share capital as at the end of the respective period	0.37	0.39	0.35	0.35

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

### Income statement

#### **a. Revenue**

	1st Half FY2006	1st Half FY2005	+ / ( - )
	(Apr-Sept 05)	(Apr-Sept 04)	
<b>Revenue by business segment</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>%</b>
IT Services	29,678	14,609	103%
Maintenance and Support Services	5,028	4,759	6%
Business Process Outsourcing (BPO)	2,636	2,427	9%
	=====	=====	
<b>Total</b>	<b>37,342</b>	<b>21,795</b>	<b>71%</b>

The Group derives its revenue from three main business segments – IT consultancy services, maintenance and support services, and business process outsourcing (BPO). The largest revenue contribution generally comes from IT services, of which contracts vary in size and scope. The extent of revenue recognised in each financial period is dependent on the stage of completion of the milestones for the development and implementation of the projects.

Group revenue increased by 71% to HK\$37.3 million in the first half of FY2006 ("1H FY06"), compared to HK\$21.8 million in the last corresponding period. The increase was due to the growth in revenue from the provision of IT services, maintenance and support services as well as BPO.

IT services remained the Group's major revenue contributor, accounting for 79% of total revenue in the 1H FY06, compared to a contribution of 67% in the last corresponding period. As revenue is recognised on a percentage by completion basis, the fees from IT services were lower in the last corresponding period because of the delay in the date of commencement for some newly-secured contracts. In addition, nine more implementation projects were secured during this period.

Fees from maintenance and support services rose by 6% to HK\$5.0 million in 1H FY06 because of the slight increase in the number of contracts from 24 contracts in FY2005 to 25 contracts in FY2006. In addition, the chargeable fees of the renewed maintenance and support services contracts are much higher than in the last corresponding period, hence overall income increased.

Fees from BPO climbed by 9% to HK\$2.6 million in 1H FY06 due to the higher headcount that was outsourced to the Intellectual Property Department of Hong Kong – from 35 people in the last corresponding period to 37 people in 1H FY06.

#### **b. Cost of Sales and Gross Profit Margin**

The Group's cost of sales rose by 34% to HK\$18.9 million in 1H FY06 mainly due to higher salaries incurred from its active recruitment of IT professionals in order to fulfill higher sales in 1H FY06, which is part of the Group's strategy to further strengthen its capabilities to increase its share of the IT services market in the Hong Kong government public sector, to pursue opportunities in the commercial sector and to penetrate new overseas markets. As an IT consultancy services company, employee costs form the largest component of the Group's cost of sales. In the Philippines, the Group increased its IT professional headcount by 46% from 123 (as of September 2004) to 180 (as of September 2005). In addition, the utilisation rates of its IT professionals increased from 77% in last corresponding period to 85% in 1H FY06. Overall, the Group's number of employees increased by 29% from 252 (as of September 2004) to 326 (as of September 2005).

The Group also purchased additional hardware and software materials from third party vendors as part of its IT services for its customers. Despite that, the Group still managed to sustain a commendable gross profit margin, which increased by 14 percentage points to 49% in 1H FY06, compared to 35% in the last corresponding period.

**c. Other operating income**

Other operating income comprised:

	(Apr-Sept 06)	(Apr- Sept 04)	
	HK\$'000	HK\$'000	%
Interest income	849	9	9,333%
Dividend income	131	-	N/A
Total	980	9	10,789%

The increase of HK\$0.9 million of other operating income in 1H FY06 was mainly due to increase in interest income of HK\$0.8 million arising from higher bank balances from issuance of new shares by way of public offer and dividend received from investments in guaranteed funds of HK\$0.1 million.

**d. Administrative and Other Operating Expenses**

The Group's administrative and other operating expenses increased by 96% or HK\$3.8 million in 1H FY06. This was mainly due to increase in operating expenses of HK\$0.7 million of its subsidiary BIGontheNet Pte Ltd ("BIGontheNet"), which was acquired in February 2005; increase in administrative salaries of HK\$1.6 million; increase in rental expenses of HK\$0.2 million for larger office premises; increase in legal and professional fees of HK\$0.3 million; increase in net exchange loss of HK\$0.3 million and increase in participant fees of HK\$0.3 million.

**Balance Sheet**

**a. Unbilled revenue on service contracts**

The increase in unbilled revenue on services contracts was because the contracts are still in the implementation stage, thus the milestone payment for these contracts has not been reached.

**b. Subsidiaries**

The increase in subsidiaries was because of the subscription of additional 49,346,834 ordinary shares for a total consideration of S\$493,468 (equivalent to HK\$2.3 million) in the capital of its wholly-owned subsidiary, BIGontheNet.

**c. Share capital and reserves**

The Group's shareholders' equity decreased from HK\$117.5 million at the beginning of the year to HK\$110.4 million as at 30 September 2005, mainly due to the payment of FY2005 final dividend of HK\$13.8 million off set by the profit generated from operations of HK\$6.7 million in 1H FY06.

**Cash flow Statement**

For the six months ended 30 September 2005, the Group's cash outflow for operations was HK\$13.1 million. Tax paid during the period was HK\$1.5 million. Cash used in investing activities of HK\$13.2 million was primarily for payment of the FY2005 final dividend in May 2005. Overall, the Group has a strong cash position of HK\$57.2 million as at 30 September 2005, compared to HK\$16.9 million as at last period end.

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

No forecast or a prospect statement has been previously disclosed to shareholders.

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

Going forward, the Group will further increase its share of the IT services to the Hong Kong government public sector and to penetrate new overseas markets especially in the Southeast Asian region. As part of this plan, the Group has been enhancing its capabilities by actively increasing its manpower resources. While this impacted its profit margins in FY2006, it believes that additional resources have placed it in a stronger position to capitalise on new business opportunities in the coming years.

At present, the Group continues to bid for a number of contracts both in Hong Kong and Singapore. The Group is confident of securing these contracts based on its strong track record and its CMMI-SW Level 5 accreditation, which is well recognised by customers in these markets.

Besides Hong Kong and Singapore, the Group also intends to widen its geographical reach into new markets that present exciting growth opportunities. As such, the Group is constantly on the lookout for suitable acquisitions in the region. We are also strengthening our resources in Dalian, China, to cater to Japanese customers in the area of software development outsourcing. In

addition, the Group targets to build up new customer bases in the region.

The Board of Directors believes that the outlook for the IT industry in Asia Pacific remains positive. The Group's established business model and strategy to strengthen its capabilities in FY2006 put it in a stronger position to benefit from the IT outsourcing opportunities in the region.

Barring any unforeseen circumstances, the Group remains cautiously optimistic of its prospects for the current financial year.

**11. Dividend**

***(a) Current Financial Period Reported On***

**Any dividend declared for the current financial period reported on?**

No interim dividend has been declared/recommended during the period ending Apr – Sept 2005.

A final dividend was recommended and approved in respect of financial year ended 31 March 2005. The final dividend amounting to HK\$13.8 million was paid during the current financial period ending September 2005.

***(b) Corresponding Period of the Immediately Preceding Financial Year***

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

No interim dividend has been declared/recommended during the period ending Apr – Sept 2004.

No final dividend was recommended in respect of financial year ended 31 March 2004.

***(c) Date payable***

Not applicable

***(d) Books closure date***

Not applicable

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

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

**PART II – ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT**

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

Not applicable for half year results.

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

Not applicable for half year results.

- 15. A breakdown of sales**

Not applicable for half year results.

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

Not applicable for half year results.

**BY ORDER OF THE BOARD**

**LEE WAN LIK**  
**MANAGING DIRECTOR**  
**26 October 2005**