



AZEUS SYSTEMS HOLDINGS LTD.

(Company registration no. 35312)

We refer to our Half Year Financial Statement posted on 26 October 2005 and wish to clarify the following queries from the Singapore Exchange Limited received on the 31 October 2005.

1. We note that sales for the first half of FY2006 is HK\$37,342,000 while unbilled revenue on service contracts as at 30 Sept 2005 is HK\$42,928,000. Does it mean that much of the sales hasn't been billed? How much of the sales has been billed as to date and is it normal practice in the industry to have such a significant amount of revenue unbilled? When does the Company expect to bill fully for the sales? Any provisions required?

Answer:

The revenue of the IT services is recognised based on the percentage of project completion method but not on the invoice date. The stage of completion is measured by reference to the percentage of actual time costs incurred to date to estimated total time costs. Revenue can only be billed when the payment milestones of the contracts have been reached. It is a normal practice that the terms of payments are settled on installment basis which are based on the fulfillment of individual project milestones, which are in turn fixed and decided by the customers when the contracts are signed. Hence, there are differences between the total IT service revenue that have been recognised and the amounts that have been billed. The differences are treated as “unbilled revenue on service contracts” and are stated in the balance sheet.

According to the accounting standards, for those amounts that can be billed within twelve months from the report date, the amounts will be treated as current assets; whereas for those amounts that can only be billed after the twelve months from the report date, the amounts will be classified as long-term. Since the balance of HK\$42,928,000 is disclosed under current asset, unless there are any unforeseen circumstances that happen in the future, the whole balance is expected to be billed within the coming twelve months. No provision is required as there have not been any issues on collecting money from our existing customers in the past.

2. The Company has indicated that there are no significant impacts on the Group's financials arising from the effects of the implementation of the new and revised accounting standards. Please quantify the impact despite it being immaterial.

Answer:

There are no 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 the Company. However, we would like to point out that the results for the period ended 30 September have not yet been audited or reviewed by the Company's auditors.

By order of the Board

Lee Wan Lik
Managing Director
31 October 2005