

AZEUS SYSTEMS HOLDINGS LTD.

(Company registration no. 35312)

**Unaudited Half Year Financial Statement and Dividend Announcement
for the period ended 30 September 2006**

**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.

Group Income Statement for the first half year ended 30 September 2006

(Expressed in Hong Kong Dollars)

	<u>The Group</u>		
	1 st Half FY2007	1 st Half FY2006	+ / (-)
	(Apr-Sep 2006)	(Apr-Sep 2005)	
	HK\$'000	HK\$'000	%
Sales	41,341	37,342	11%
Cost of sales	(27,201)	(18,967)	43%
	=====	=====	
Gross profit	14,140	18,375	(23%)
Other gains	1,251	980	27%
Selling and marketing expenses	(3,904)	(3,449)	13%
Administrative and other operating expenses	(7,107)	(7,693)	(8%)
	=====	=====	
Profit before tax	4,380	8,213	(47%)
Income tax expense	(766)	(1,437)	(47%)
	=====	=====	
Net profit	3,614	6,776	(47%)
	=====	=====	
Earnings per share (basic and diluted)	HK\$ 0.012	HK\$ 0.023	
	=====	=====	

Azeus Systems Holdings Ltd.

Group Income Statement for the first half year ended 30 September 2006

(Expressed in Hong Kong Dollars)

Note 1 – Expense by nature			
Expenses included cost of sales, selling and marketing expenses and administrative and other operating expense are analysed as follow.			
	The Group		
	1st Half FY2007	1st Half FY2006	+ / (-)
	(Apr-Sep 2006)	(Apr-Sep 2005)	
	HK\$'000	HK\$'000	%
Hardware and software	7,997	2,977	169%
Subcontracting fee	916	660	39%
Depreciation of property, plant and equipment	284	412	(31%)
Employee benefits expenses	23,796	19,602	21%
Directors emoluments	396	396	-
Rental expenses- operating lease	1,136	1,028	11%
Legal and professional fee	366	302	21%
Net foreign exchange loss	-	283	N/M
Other expenses	3,321	4,449	(25%)
	=====	=====	
Total cost of sales, selling and marketing and administrative expenses	38,212	30,109	27%
	=====	=====	

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 2006
(Expressed in Hong Kong Dollars)

	<u>The Group</u>			<u>The Company</u>		
	30 Sep 2006	31 Mar 2006	+ / (-)	30 Sep 2006	31 Mar 2006	+ / (-)
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Current assets						
Cash and cash equivalents	25,937	59,822	(57%)	1,364	5,405	(75%)
Trade and other receivables	41,842	8,174	412%	63,505	74,826	(15%)
Unbilled revenue on service contracts	39,405	55,625	(29%)	-	-	-
Inventories	3,758	3,146	19%	-	-	-
	110,942	126,767	(12%)	64,869	80,231	(19%)
Non-current assets						
Available-for-sale financial assets	4,174	4,151	1%	-	-	-
Investment in subsidiaries	-	-	-	38,602	40,571	(5%)
Property, plant and equipment	1,339	1,402	(4%)	-	-	-
Deferred tax asset	201	212	(5%)	-	-	-
	5,714	5,765	(1%)	38,602	40,571	-
Total assets	116,656	132,532	(12%)	103,471	120,802	(14%)

Azeus Systems Holdings Ltd.
Balance Sheet as at 30 September 2006
(Expressed in Hong Kong Dollars)

	<u>The Group</u>			<u>The Company</u>		
	30 Sep 2006	31 Mar 2006	+ / (-)	30 Sep 2006	31 Mar 2006	+ / (-)
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Current liabilities						
Trade and other payables	5,265	11,310	(53%)	345	625	(45%)
Current tax liabilities	2,199	1,478	49%	-	-	-
	=====	=====		=====	=====	
	7,464	12,788	(42%)	345	625	(45%)
Non-current liability						
Provision for retirement benefits	34	34	-	-	-	-
Deferred tax liabilities	130	130	-	-	-	-
	=====	=====		=====	=====	
	164	164	-	-	-	-
	=====	=====		=====	=====	
Total liabilities	7,628	12,952	(41%)	345	625	(45%)
	=====	=====		=====	=====	
Net assets	109,028	119,580	(9%)	103,126	120,177	(14%)
	=====	=====		=====	=====	
REPRESENTED BY:						
Share capital	46,800	46,800	-	46,800	46,800	-
Share premium	56,489	56,489	-	56,726	56,726	-
Foreign currency translation reserve	95	41	132%	-	-	-
Other reserves	466	(69)	775%	-	-	-
Retained earnings/ (Accumulated loss)	5,178	16,319	(68%)	(400)	16,651	(102%)
	=====	=====		=====	=====	
	109,028	119,580	(9%)	103,126	120,177	(14%)
	=====	=====		=====	=====	

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 2006 and 31 March 2006.

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>	
	1st Half FY2007	1st Half FY2006
	(Apr-Sep 2006)	(Apr-Sep 2005)
	HK\$'000	HK\$'000
Cash flows from operating activities		
Profit before tax	4,380	8,213
Adjustment for:		
Unrealised loss on other investments	-	115
Depreciation	284	412
Employee share-based compensation costs	512	-
Interest income	(1,137)	(849)
Dividend income	(14)	(131)
Exchange difference	54	(43)
	—————	—————
Operating cash flow before working capital change	4,079	7,717
Change in operating assets and liabilities:		
Trade receivables and other receivables	(33,668)	(273)
Unbilled revenue on service contracts	16,220	(18,358)
Inventories	(612)	105
Trade payables and other payables	(6,045)	(814)
	—————	—————
Cash outflow from operations	(20,026)	(11,623)
Income tax paid	(34)	(1,476)
	—————	—————
Net cash outflow from operating activities	(20,060)	(13,099)
	—————	—————

	<u>The Group</u>	
	1st Half FY2007	1st Half FY2006
	(Apr-Sep 2006)	(Apr-Sep 2005)
	HK\$'000	HK\$'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(221)	(506)
Interest received	1,137	849
Dividend received	14	131
Dividends paid to shareholders	(14,755)	(13,755)
	=====	=====
Net cash outflow from investing activities	(13,825)	(13,281)
Net decrease in cash and cash equivalents held	(33,885)	(26,380)
Cash and cash equivalents at the beginning of the period	59,822	83,578
	=====	=====
Cash and cash equivalents at the end of the period	25,937	57,198
	=====	=====

	Share Capital	Share Premium	Retained Profits	Total
<u>Company</u>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 April 2006	46,800	56,726	16,651	120,177
FY2005 final dividend paid	-	-	(14,755)	(14,755)
Net loss for the period	-	-	(2,296)	(2,296)
	=====	=====	=====	=====
Balance as at 30 September 2006	46,800	56,726	(400)	103,126
	=====	=====	=====	=====
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
	=====	=====	=====	=====
Balance as at 30 September 2005	46,800	56,726	393	103,919
	=====	=====	=====	=====

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

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 2006.

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.

Not applicable.

- 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>The Group</u>	
	1st Half FY2007	1st Half FY2006
Net profit of the Group (HK\$'000)	3,614	6,776
Weighted average number of shares ('000)	300,000	300,000
- Basic earnings per share (HK\$)	0.012	0.023
- Fully diluted earnings per share (HK\$)	0.012	0.023

Diluted earnings per share are the same as basic earnings per share as there are no potential dilutive ordinary shares.

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

	<u>The Group</u>		<u>The Company</u>	
	30 Sep 2006	31 Mar 2006	30 Sep 2006	31 Mar 2006
	HK\$	HK\$	HK\$	HK\$
Net asset value per ordinary share based on the existing share capital as at the end of the respective period	0.36	0.39	0.34	0.40

- 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 FY2007	1st Half FY2006	+ / (-)
	(Apr-Sep 06)	(Apr-Sep 05)	
Revenue by business segment	HK\$'000	HK\$'000	%
IT Services	32,752	29,678	10%
Maintenance and Support Services	5,714	5,028	14%
Business Process Outsourcing (BPO)	2,875	2,636	9%
	=====	=====	
Total	41,341	37,342	11%

The Group derives its revenue from three core business areas – 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 recognition in each financial period is dependent on the stage of completion of the milestones for the development and implementation of the projects. Specifically, according to the Group's accounting policy, contract revenue for the provision of IT services is recognized using the stage of completion method. The stage of completion is measured with reference to the percentage of actual time costs incurred to date to estimated total time costs. Contract costs are recognized when incurred. The aggregate of the costs incurred and the profit/loss recognized on each contract is compared against the progress billings up to the period end. Where costs incurred and recognized profits (less recognized losses) exceed progress billings, the balance is shown as unbilled revenue on service contracts in the balance sheet.

Group revenue increased by 11% to HK\$41.3 million in the first half of FY2007 ("1H FY07"), compared to HK\$37.3 million in the last corresponding period. This was due to the increase 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 FY07, similar to the revenue contribution in the last corresponding period. The fees from IT services were higher in 1H FY07 because of the increase in sale of hardware items by HK\$4.4 million to HK\$7.5 million in 1H FY07 as compared to HK\$3.1 million in the last corresponding period.

Fees from maintenance and support services rose by 14% to HK\$5.7 million in 1H FY07 because of the increase in the number of contracts from 25 contracts in FY2006 to 27

contracts in FY2007. In addition, the chargeable fee component of renewed maintenance and support services contracts are much higher than in the last corresponding period, resulting in a greater contribution to overall income.

Fees from BPO climbed by 9% to HK\$2.9 million in 1H FY07 due to an increase in chargeable hourly rates and a higher headcount that was outsourced to the Intellectual Property Department of Hong Kong .

b. Cost of Sales and Gross Profit Margin

The Group's cost of sales rose by 43% to HK\$27.2 million in 1H FY07 mainly due to higher direct salaries cost and cost of third party hardware items.. Employee costs form the largest component of the Group's cost of sales. Overall, the Group's average number of employees increased by 18% to 331 in 1H FY07 from 281 in the last corresponding period.

Gross margins decreased from 49% to 34% due mainly to the increased sale of hardware materials, which has a lower gross profit margin than IT services. The Group purchased additional hardware materials from third party vendors as part of its IT services to its customers which reduced the gross margin for IT services. Excluding hardware sales, the Group experienced a marginal 4% decrease in overall IT service margin from 47% to 43%.

c. Other Gains

Other gains comprised:

	1st Half FY2007	1st Half FY2006	+ / (-)
	(Apr-Sep 06)	(Apr-Sep 05)	
	HK\$'000	HK\$'000	%
Interest income	1,137	849	34%
Dividend income	14	131	(89%)
Net foreign exchange gain	100	1	N/A
	=====	=====	
Total	1,251	980	27%

The increase of HK\$0.3 million of other gains in 1H FY07 was mainly due to an increase in interest income of HK\$0.3 million arising from higher interest rates in 1H FY07 and HK\$0.1 million of net foreign exchange gains.

d. Administrative and Other Operating Expenses

The Group's administrative and other operating expenses decreased by 8% or HK\$0.6 million in 1H FY07. This was mainly due to a decrease in administrative salaries of HK\$0.8 million for the Group's Executive Vice-president, who resigned on 31 March 2006.

Balance Sheet

a. Unbilled Revenue on Service Contracts and Trade and Other Receivables

The decrease in unbilled revenue on services contracts of HK\$16.2 million was due to the fact that a majority of the projects implemented are nearing completion and milestone payments are raised. Invoices have been issued for these projects and have yet to be settled, resulting in the increase in trade receivables. This is in line with the increase in trade receivables of HK\$33.7 million. Subsequently after 1H FY07, majority of the Group's trade receivables have been settled and no provision of doubtful debts is considered necessary.

b. Share capital and reserves

The Group's shareholders' equity decreased from HK\$119.6 million at the beginning of the year to HK\$109.0 million as at 30 September 2006, mainly due to the payment of FY2006 final dividend of HK\$14.8 million, off-set by the profit generated from operations of HK\$3.6 million in 1H FY07.

Cash flow Statement

For the six months ended 30 September 2006, the Group's cash outflow for operations was HK\$20.0 million. Cash used in investing activities of HK\$13.8 million was primarily for payment of the FY2006 final dividend in May 2006. Overall, the Group has a healthy cash position of HK\$25.9 million as at 30 September 2006. Subsequently, after 1H FY07, HK\$27.3 million cash has been received from customers for invoice settlement to date.

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 remain focused on sustaining its market share in the Hong Kong public sector while making significant efforts to diversify its risks by expanding into new markets and pursuing regional investment opportunities. The Group continues to bid for a number of contracts, both in Hong Kong and Singapore, and was recently able to

secure a new 5-year, US\$10 million IT and BPO outsourcing contract for the provision of large-scale office operations services to the Hong Kong government Intellectual Property Department, as well as four small-scale contracts with total contract value of US\$2.6 million. These contracts are not expected to have a material impact on the Group's financial performance for the year ending March 31, 2007.

In view of the competitive environment and stiff challenges from other IT service providers, whilst the Group remains focused on sustaining its market share in the Hong Kong public sector, going forward, it also aims to expand its revenue sources by expanding its IT services business into the private sector.

The Group has also been enhancing its capabilities by actively increasing manpower resources. While this will impact its profit margin in FY2007, the Group believes that additional resources will place them in a stronger position to capitalize on new business opportunities in the coming years.

The Group expects profit for FY2007 to be lower than FY2006 in view of its investment in human resources and the highly competitive environment as outlined above.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

No interim dividend has been declared/recommended during the period ended Apr – Sept 2006.

A final dividend was recommended and approved in respect of financial year ended 31 March 2006. The final dividend amounting to HK\$14.8 million was paid during the period ended Apr-Sept 2006.

(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 ended 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 period ended Apr-Sept 2005.

(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

7 November 2006



FIRST CLASS LEVEL 5 IN GREATER CHINA

Confirmation Pursuant to 705(4) of the Listing Manual

We, Lee Wan Lik and Lam Pui Wan, being the two directors of Azeus Systems Holdings Ltd. do hereby confirm on behalf of the directors of the Company that, to the best of our knowledge, nothing has come to attention of the board of directors of the Company which may render the financial results for the period ended 30 September 2006 to be false or misleading.

On behalf of the Board of Directors

LEE Wan Lik
Executive Director

LAM Pui Wan
Executive Director