

AZEUS SYSTEMS HOLDINGS LTD.

Unaudited Half Year Financial Statement and Dividend Announcement for the period ended 30 September 2013

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.

1(a)(i) Consolidated Income Statement for the first half year ended 30 September 2013
(Expressed in Hong Kong Dollars)

	<u>The Group</u>		
	1 st Half FY2014	1 st Half FY2013	+ / (-)
	(Apr-Sep 2013)	(Apr-Sep 2012)	
	HK\$'000	HK\$'000	%
Sales	73,708	57,171	29
Cost of sales	(48,461)	(34,988)	39
	<hr/>	<hr/>	
Gross profit	25,247	22,183	14
Other income	60	112	(46)
Other gains / (losses) - net	142	201	(29)
Selling and marketing expenses	(2,503)	(3,029)	(17)
Administrative and other operating expenses	(11,258)	(16,943)	(34)
Provision for impairment of joint venture	-	(144)	(100)
	<hr/>	<hr/>	
Profit before tax	11,688	2,380	391
Income tax expense	(2,800)	(900)	211
	<hr/>	<hr/>	
Profit attributable to equity holders of the Company	8,888	1,480	501
	<hr/>	<hr/>	
Earnings per share (basic and diluted)	2.96 cents	0.49 cents	
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1(a)(ii) Statement of Comprehensive Income for the first half year ended 30 September 2013

(Expressed in Hong Kong Dollars)

	The Group		
	1st Half FY2014	1st Half FY2013	+ / (-)
	(Apr-Sep 2013)	(Apr-Sep 2012)	
	HK\$'000	HK\$'000	%
Profit for the period	8,888	1,480	501
Other comprehensive income:			
Currency translation differences	(228)	21	(1,186)
	(228)	21	(1,186)
Total comprehensive income attributable to equity holders of the Company	8,660	1,501	477

1(a)(iii) Note to Income Statement for the first half year ended 30 September 2013

(Expressed in Hong Kong Dollars)

Expenses included in cost of sales, selling and marketing expenses and administrative and other operating expense are analysed as follow.			
	The Group		
	1st Half FY2014	1st Half FY2013	+ / (-)
	(Apr-Sep 2013)	(Apr-Sep 2012)	
	HK\$'000	HK\$'000	%
Depreciation of property, plant and equipment	(183)	(181)	1
Legal and professional fee	(1,156)	(8,447)	(86)
Rental expenses- operating lease	(2,341)	(2,287)	2
Employee benefits expenses (include director remuneration)	(36,993)	(34,717)	7
Hardware and software	(10,591)	-	100
Repair and maintenance	(3,168)	(2,633)	20
Other expenses	(7,790)	(6,695)	16
Total cost of sales, selling and marketing and administrative Expenses	(62,222)	(54,960)	13

**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 2013
(Expressed in Hong Kong Dollars)

	<u>The Group</u>			<u>The Company</u>		
	30 Sep 2013	31 Mar 2013	+ / (-)	30 Sep 2013	31 Mar 2013	+ / (-)
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Current assets						
Cash and cash equivalents	29,591	48,626	(39)	682	430	59
Pledged bank deposits	7,167	7,154	-	-	-	-
Trade and other receivables	30,830	14,712	110	91,105	83,554	9
Inventories	21,557	29,419	(27)	-	-	-
Unbilled revenue on service contracts	74,250	63,233	17	-	-	-
Current income tax assets	41	44	(7)	-	-	-
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
	163,436	163,188	-	91,787	83,984	9
Non-current assets						
Investment in subsidiaries	-	-	-	50,460	50,460	-
Property, plant and equipment	783	895	(13)	-	-	-
Deferred tax assets	185	196	(6)	-	-	-
Refundable deposit	357	352	1	-	-	-
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
	1,325	1,443	(8)	50,460	50,460	-
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
Total assets	164,761	164,631	-	142,247	134,444	6
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	

Azeus Systems Holdings Ltd.
Balance Sheet as at 30 September 2013
(Expressed in Hong Kong Dollars)
(Continued)

	<u>The Group</u>			<u>The Company</u>		
	30 Sep 2013	31 Mar 2013	+ / (-)	30 Sep 2013	31 Mar 2013	+ / (-)
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Current liabilities						
Trade and other payables	8,963	19,631	(54)	104	1,384	(92)
Current income tax liabilities	7,915	5,669	40	-	-	-
Dividend Payable	31,140	-	100	31,140	-	100
	48,018	25,300	90	31,244	1,384	2,158
Non-current liability						
Provision for retirement benefits	1,735	1,843	(6)	-	-	-
	1,735	1,843	(6)	-	-	-
Total liabilities	49,753	27,143	83	31,244	1,384	2,158
Net assets	115,008	137,488	(16)	111,003	133,060	(17)
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	(72)	156	(146)	-	-	-
Other reserves	1,328	1,328	-	-	-	-
Retained earnings	10,463	32,715	(68)	7,477	29,534	(75)
	115,008	137,488	(16)	111,003	133,060	(17)

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 2013 and 31 March 2013.

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>	
	1 st Half FY2014	1 st Half FY2013
	(Apr-Sep 2013)	(Apr-Sep 2012)
	HK\$'000	HK\$'000
Cash flows from operating activities		
Net profit	8,888	1,480
Adjustment for:		
Income tax expense	2,260	887
Depreciation of property, plant and equipment	183	181
Interest income	(60)	(112)
Provision for impairment of joint venture	-	144
Exchange differences	(228)	21
Operating cash flow before working capital change	11,043	2,601
Change in working capital:		
Trade and other receivables	(16,118)	(4,204)
Unbilled revenue on service contracts	(11,017)	(10,455)
Amount due from a joint venture	-	126
Refundable deposits	(5)	(52)
Inventories	7,862	(6,770)
Trade and other payables	(10,668)	(6,402)
Pledged deposit	(13)	(25)
Cash used in operations	(18,916)	(25,181)
Contributions to retirement fund	(108)	50
Income tax paid	-	-
Net cash used in operating activities	(19,024)	(25,131)

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

	The Group	
	1st Half FY2014	1st Half FY2013
	(Apr-Sep 2013)	(Apr-Sep 2012)
	HK\$'000	HK\$'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(71)	(621)
Interest received	60	112
Additional capital to a joint venture	-	(144)
Net cash used in investing activities	(11)	(653)
Cash flows from financing activities		
Dividends paid to equity holders of the Company	-	(10,479)
Net cash used in financing activities	-	(10,479)
Net decrease in cash and cash equivalents held	(19,035)	(36,263)
Cash and cash equivalents at the beginning of the period	48,626	62,506
Cash and cash equivalents at the end of the period	29,591	26,243

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

	Share Capital	Share Premium	Foreign Currency Translation Reserve	Other Reserves	Retained Profits	Total
<u>Group</u>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 April 2013	46,800	56,489	156	1,328	32,715	137,488
Total comprehensive income for the period	-	-	(228)	-	8,888	8,660
FY2013 final dividends proposed	-	-	-	-	(31,140)	(31,140)
	=====	=====	=====	=====	=====	=====
Balance as at 30 September 2013	46,800	56,489	(72)	1,328	10,463	115,008
	=====	=====	=====	=====	=====	=====
Balance as at 1 April 2012	46,800	56,489	97	1,328	12,069	116,783
Total comprehensive income for the period	-	-	21	-	1,480	1,501
FY2012 final dividends paid	-	-	-	-	(10,479)	(10,479)
	=====	=====	=====	=====	=====	=====
Balance as at 30 September 2012	46,800	56,489	118	1,328	3,070	107,805
	=====	=====	=====	=====	=====	=====

	Share Capital	Share Premium	Retained Profits	Total
<u>Company</u>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 April 2013	46,800	56,726	29,534	133,060
Total comprehensive income for the period	-	-	9,083	9,083
FY2013 final dividends proposed	-	-	(31,140)	(31,140)
	=====	=====	=====	=====
Balance as at 30 September 2013	46,800	56,726	7,477	111,003
	=====	=====	=====	=====
Balance as at 1 April 2012	46,800	56,726	5,360	108,886
Total comprehensive income for the period	-	-	9,893	9,893
FY2012 final dividends paid	-	-	(10,479)	(10,479)
	=====	=====	=====	=====
Balance as at 30 September 2012	46,800	56,726	4,774	108,300
	=====	=====	=====	=====

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

Not applicable.

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

As at 30 September 2013, share capital of the Company comprised 300,000,000 ordinary shares (FY2013: 300,000,000). There were no treasury shares held by the Company at 30 September 2013 and 2012.

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

Not applicable.

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

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

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

Not applicable.

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

Except as disclosed under Note 5 below, the Group has applied the same accounting

policies and methods of computation in the financial information for the current reporting financial period compared with the financial statements for FY 2013.

- 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.**

On 1 April 2013, the Group and the Company adopted the new / amended FRS and which are effective for annual periods beginning on or after 1 July 2013. The following are the new or revised FRS that are relevant to the Group.

Amendments to FRS 1	Presentation of Financial Statements
FRS 110	Consolidated Financial Statements

The adoption of the above FRS did not result in any substantial change to the Group's accounting policies or any significant impact on the financial statements.

- 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>	
	1 st Half FY2014	1 st Half FY2013
Net profit of the Group (HK\$'000)	8,888	1,480
Weighted average number of shares ('000)	300,000	300,000
- Basic earnings per share (HK cents)	2.96	0.49
- Fully diluted earnings per share (HK cents)	2.96	0.49

Fully diluted earnings per share is similar to the basic earnings per share as the Group did not have any potential dilutive ordinary shares outstanding as at 30 September 2013 and 30 September 2012.

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 2013	31 Mar 2013	30 Sep 2013	31 Mar 2013
	HK cents	HK cents	HK cents	HK cents
Net asset value per ordinary share based on the existing share capital as at the end of the respective period	38.34	45.83	37.00	44.35

The number of ordinary shares outstanding for the computation of net asset value per ordinary share is 300,000,000 (FY2013: 300,000,000).

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

Income statement

a. Revenue

	1 st Half FY2014	1 st Half FY2013	+ / (-)
	(Apr-Sep 13)	(Apr-Sep 12)	
Revenue by business segment	HK\$'000	HK\$'000	%
IT Services, including sale of hardware and software	44,708	28,398	57
Maintenance and Support Services	22,550	22,165	2
Business Process Outsourcing (BPO)	6,450	6,608	(2)
	=====	=====	
Total	73,708	57,171	29

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

Group revenue increased by 29% to HK\$73.7 million in 1H FY2014, as compared to HK\$57.2 million in the last corresponding period.

IT services accounted for 60.6% (1H FY2013: 49.7%) of total revenue in 1H FY2014. The fees from IT services were higher in 1H FY2014 due to a higher number of contracts secured and implemented in 1H FY2014, and higher revenue from sales of third-party hardware and software. One of the major implementation contracts was completed in 1H FY2014.

Fees from maintenance and support services increased by 2% to HK\$22.6 million in 1H FY2014. This business segment accounted for 30.6% (1H FY2013: 38.8%) of total revenue in 1H FY2014. The Group secured more high-value maintenance contracts in the current year.

Fees from BPO decreased by 2% to HK\$6.5 million in 1H FY2014 due to lower headcount outsourced in 1H FY2014.

b. Cost of Sales and Gross Profit Margin

Cost of sales in 1H FY2014 was higher by HK\$13.5 million, rising from HK\$35.0 million to HK\$48.5 million due to an increase in cost of sales of hardware and software totaling HK\$10.6 million. Overall, the gross profit margin decreased from 39% to 34%. Excluding sales of hardware and software, the Group's gross profit margin would have been 38% (1H FY2013: 39%).

c. Other Income & Other Gains - net

	1 st Half FY2014	1 st Half FY2013	+ / (-)
	(Apr-Sep 13)	(Apr-Sep 12)	
	HK\$'000	HK\$'000	%
Other income comprised:			
Interest income	60	112	(46)
Subtotal	60	112	(46)
Other gains - net comprised:			
Net foreign exchange gain/(loss)	142	201	(29)
Subtotal	142	201	-

Interest income was lower in 1H FY2014 compared to 1H FY2013 due to lower interest rate and average cash balance in the current period. Net foreign exchange gain decreased in 1H FY2014 due to the purchase of foreign currencies for operating

purposes at a lower rate as compared with last interim year end.

d. Selling and marketing expenses

Selling and marketing expenses decreased by 17% or HK\$0.5 million in 1H FY2014 as the Group participated in fewer tender bids in 1H FY2014.

e. Administrative and Other Operating Expenses

Administrative and other operating expenses decreased by 34% or HK\$5.7 million in 1H FY2014 mainly due to a decrease in legal and professional fee for arbitration. An interim ruling was announced in March 2013 and an award has been made in the Group's favor.

f. Net profit after taxation

Overall, the Group managed to achieve a higher net profit of HK\$8.9 million. The Group's net profit margin increased from 2.6% in 1H FY2013 to 12% in 1H FY2014.

Balance Sheet

a. Unbilled Revenue on Service Contracts

The increase in unbilled revenue on services contracts of HK\$74.3 million was due to a higher number of contracts implemented during the period.

b. Trade and other receivables

Trade and other receivables increased by 110% from HK\$14.7 million to HK\$30.8 million, arising from higher sales in 1H FY2014. Higher amount of invoices were issued due to more projects reaching payment milestones near period. All the trade receivables as of 30 September 2013 were current in nature and no allowance for doubtful debt was considered necessary.

c. Inventory

Inventories comprise of hardware and software products to be used in IT service implementation projects under the relevant contract terms. The balance represents items that were delivered and which customers have not completed the corresponding acceptance tests. Therefore, the relevant revenue associated with these hardware and software products have not been recognised. Inventory decreased from HK\$29.4 million to HK\$21.6 million due to completion of a major contract and acceptance by the customers in 1H FY2014.

d. Share capital and reserves

Shareholders' equity decreased from HK\$137.5 million at the beginning of the year to HK\$115.0 million as at 30 September 2013, mainly due to the FY 2013 final dividend of HK\$31.1 million offset by profit generated from operations of HK\$8.9 million in 1H FY2014.

Cash flow Statement

For the six months ended 30 September 2013, the Group's net cash used in operating activities was HK\$19.0 million. The major operating activities were increase in unbilled revenue, trade receivables and decrease in inventory as projects have reached the key implementation stages.

Overall, the Group managed to maintain a healthy cash position of HK\$29.6 million as at 30 September 2013.

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 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.

The Group remains focused on sustaining its market share in the Hong Kong public sector. Backed by our capabilities as a leading provider of IT consultancy services, we are pleased to be selected as prequalified vendor for the Standing Offer Agreements for the supply of IT professional services for the Hong Kong Government effective from 31 July 2013 for four years.

In addition, our investment in the United Kingdom (UK) market is yielding results. We are pleased to secure a UK project in 1H FY2014 with a total contract value of HK\$7.4 million (UK£593,400). The Group will continue to invest and make progress to further penetrate the UK IT services market.

In the second half of last financial year, the Group recognised an exceptional gain of

HK\$40.9 million arising from compensation received from an arbitration case in March 2013. In 1H FY2014, the Group further received the final ruling from the arbitrator and concluded that the customer shall pay all of Azeus' costs of the arbitration for enforcing or defending Azeus' rights in respect of the arbitration. The amount is yet to be determined by an independent party.

Barring unforeseen circumstances, the Group is maintaining a cautious outlook for 2H FY2014. The Group expects the net profit will be lower than last year as there is no similar level of exceptional gain to be recognised.

11. Dividend

(a) *Current Financial Period Reported On*

Any dividend declared for the current financial period reported on?

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

(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 30 September 2012.

A final dividend was recommended and approved in respect of financial year ended 31 March 2013. The Company intends to pay the dividend before 31 December 2013 and will announce the books closure date closer to such payment date.

(c) *Date payable*

Not applicable.

(d) *Books closure date*

Not applicable.

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

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

PART II – ADDITIONAL INFORMATION REQUIRED FOR FULL YEAR ANNOUNCEMENT

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

Not applicable for half year results.

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

Not applicable for half year results.

- 15. A breakdown of sales.**

Not applicable for half year results.

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

Not applicable for half year results.

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

No IPT mandate obtained.

BY ORDER OF THE BOARD

LEE WAN LIK
MANAGING DIRECTOR
14 November 2013

Confirmation Pursuant to 705(5) of the Listing Manual

We, Lee Wan Lik and Lam Pui Wan, being the two directors of Azeus Systems Holdings Ltd. do hereby confirm on behalf of the directors of the Company that, to the best of our knowledge, nothing has come to attention of the board of directors of the Company which may render the financial results for the period ended 30 September 2013 to be false or misleading.

On behalf of the Board of Directors

LEE Wan Lik
Executive Director

LAM Pui Wan
Executive Director