

AZEUS SYSTEMS HOLDINGS LTD.

Unaudited Half Year Financial Statement and Dividend Announcement for the period ended 30 September 2017

Part I – 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 2017

(Expressed in Hong Kong Dollars)

	<u>The Group</u>		
	1 st Half FY2018	1 st Half FY2017	+ / (-)
	(Apr-Sep 2017)	(Apr-Sep 2016)	
	HK\$'000	HK\$'000	%
Sales	41,211	48,304	(15)
Cost of sales	(32,489)	(33,284)	(2)
	_____	_____	
Gross profit	8,722	15,020	(42)
Other income	8	12	(33)
Other gains/(losses) - net	3,175	(3,272)	(197)
Selling and marketing expenses	(6,699)	(8,699)	(23)
Administrative and other operating expenses	(11,055)	(12,998)	(15)
	_____	_____	
Loss before tax	(5,849)	(9,937)	(41)
Income tax expense	(11)	(25)	(56)
	_____	_____	
Loss attributable to equity holders of the Company	(5,860)	(9,962)	(41)
	_____	_____	
Loss per share (basic and diluted)	(19.53 cents)	(33.21 cents)	(41)
	_____	_____	

1(a)(ii) Statement of Comprehensive Income for the first half year ended 30 September 2017
(Expressed in Hong Kong Dollars)

	The Group		
	1st Half FY2018	1st Half FY2017	+ / (-)
	(Apr-Sep 2017)	(Apr-Sep 2016)	
	HK\$'000	HK\$'000	%
Loss attributable to equity holders of the Company	(5,860)	(9,962)	(41)
<u>Other comprehensive income</u>			
<u>Items that may be reclassified subsequently to profit or loss:</u>			
Currency translation differences arising from consolidation – (losses)/gains	(1,987)	1,949	(202)
<u>Items that will not be reclassified subsequently to profit or loss:</u>			
Actuarial gains on defined retirement benefits – net of tax	108	267	(60)
Other comprehensive (loss)/income – net of tax	(1,879)	2,216	(185)
Total comprehensive losses attributable to equity holders of the Company	(7,739)	(7,746)	-

1(a)(iii) Note to Income Statement for the first half year ended 30 September 2017
(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 FY2018	1st Half FY2017	+ / (-)
	(Apr-Sep 2017)	(Apr-Sep 2016)	
	HK\$'000	HK\$'000	%
Depreciation of property, plant and equipment	(212)	(192)	10
Legal and professional fee	(902)	(729)	24
Rental expenses – operating lease	(3,161)	(3,289)	(4)
Employee benefits expenses (include director remuneration)	(34,746)	(35,528)	(2)
Third party hardware and software	(275)	(48)	473
Amortisation of intangible assets	(5,060)	(3,710)	36
Repair and maintenance	(3,386)	(4,904)	(31)
Subcontractor fee	(777)	(2,632)	(70)
Sales consultants fee	(447)	(1,714)	(74)
Provision for unbilled revenue	-	(1,369)	(100)
Other expenses	(1,277)	(866)	47
Total cost of sales, selling and marketing and administrative expenses	(50,243)	(54,981)	(9)

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 2017
(Expressed in Hong Kong Dollars)

	<u>The Group</u>			<u>The Company</u>		
	30 Sep 2017	31 Mar 2017	+ / (-)	30 Sep 2017	31 Mar 2017	+ / (-)
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Current assets						
Cash and cash equivalents	35,683	38,856	(8)	386	644	(40)
Pledged bank deposits	569	2,249	(75)	-	-	-
Trade and other receivables	17,143	24,594	(30)	50,322	52,350	(4)
Inventories	1,314	1,423	(8)	-	-	-
Unbilled revenue on service contracts	24,145	19,016	27	-	-	-
Tax prepaid	1,563	1,580	(1)	-	-	-
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
	80,417	87,718	(8)	50,708	52,994	(4)
Non-current assets						
Investment in subsidiaries	-	-	-	50,384	50,386	-
Property, plant and equipment	950	983	(3)	-	-	-
Intangible assets	15,696	15,491	1	-	-	-
Deferred tax assets	1,106	1,124	(2)	-	-	-
Refundable deposit	1,389	1,398	(1)	-	-	-
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
	19,141	18,996	1	50,384	50,386	-
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	
Total assets	99,558	106,714	(7)	101,092	103,380	(2)
	<u> </u>	<u> </u>		<u> </u>	<u> </u>	

Azeus Systems Holdings Ltd.
Balance Sheet as at 30 September 2017
(Expressed in Hong Kong Dollars)
(Continued)

	<u>The Group</u>			<u>The Company</u>		
	30 Sep 2017	31 Mar 2017	+ / (-)	30 Sep 2017	31 Mar 2017	+ / (-)
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Current liabilities						
Trade and other payables	6,099	8,932	(32)	113	1,257	(91)
Deferred revenue - current	8,101	5,327	52	-	-	-
Current income tax liabilities	-	80	(100)	-	-	-
	_____	_____		_____	_____	
	14,200	14,339	(1)	113	1,257	(91)
Non-current liabilities						
Deferred revenue – non current	1,052	133	691	-	-	-
Provision for defined retirement benefits	10,247	10,415	(2)	-	-	-
Other liabilities	-	29	(100)			
	_____	_____		_____	_____	
	11,299	10,577	(7)	-	-	-
	_____	_____		_____	_____	
Total liabilities	25,499	24,916	(2)	113	1,257	(91)
	_____	_____		_____	_____	
Net assets	74,059	81,798	(9)	100,979	102,123	(1)
	_____	_____		_____	_____	
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	2,984	4,971	(40)	-	-	-
Other reserves	1,336	1,330	-	-	-	-
Defined retirement benefits	(7,680)	(7,788)	(1)	-	-	-
Accumulated losses	(25,870)	(20,004)	29	(2,547)	(1,403)	82
	_____	_____		_____	_____	
	74,059	81,798	(9)	100,979	102,123	(1)
	_____	_____		_____	_____	

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

The Group has no bank borrowings or debt securities as at 30 September 2017 and 31 March 2017.

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

Consolidated Statement of Cash Flows for the first half year ended 30 September 2017

	<u>The Group</u>	
	1st Half FY2018	1st Half FY2017
	(Apr-Sep 2017)	(Apr-Sep 2016)
	HK\$'000	HK\$'000
Cash flows from operating activities		
Net loss attributable to equity holders of the Company	(5,860)	(9,962)
Adjustments for:		
Income tax expense	11	25
Depreciation of property, plant and equipment	212	192
Amortisation of intangible assets	5,060	3,710
Interest income	(8)	(12)
	(585)	(6,047)
Change in working capital:		
Pledged bank deposit	1,680	(6)
Trade and other receivables	6,552	945
Unbilled revenue on service contracts	(5,129)	(4,056)
Refundable deposits	9	(2)
Inventories	109	(1,090)
Trade and other payables	(3,204)	(4,039)
Deferred revenue	3,693	557
Cash generated from/(used in) operations	3,125	(13,738)
Income tax paid	(74)	(165)
Net cash provided by/(used in) operating activities	3,051	(13,903)

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

	<u>The Group</u>	
	1st Half FY2018	1st Half FY2017
	(Apr-Sep 2017)	(Apr-Sep 2016)
	HK\$'000	HK\$'000
Cash flows from investing activities		
Purchase of property, plant and equipment	(179)	(308)
Additions of intangible assets	(5,265)	(6,619)
Interest received	8	12
Net cash used in investing activities	(5,436)	(6,915)
Cash flows from financing activities		
Dividends paid to shareholders	-	(1,341)
Cash used in financing activities	-	(1,341)
Net decrease in cash and cash equivalents	(2,385)	(22,159)
Cash and cash equivalents at the beginning of the financial period	38,856	64,562
Effects of currency translation on cash and cash equivalents	(788)	848
Cash and cash equivalents at the end of the financial period	35,683	43,251

Non cash item:

The increase in intangible assets is the capitalization of direct expenditure including employee costs.

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

Statement of Changes in Equity for the half year ended 30 September 2017

	Share Capital	Share Premium	Foreign Currency Translation Reserve	Other Reserves	Defined Retirement Benefits	(Accumulated Losses) / Retained Profits	Total
<u>Group</u>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 April 2017	46,800	56,489	4,971	1,330	(7,788)	(20,004)	81,798
Loss attributable to equity holders of the Company	-	-	-	-	-	(5,860)	(5,860)
Other comprehensive income/(loss)	-	-	(1,987)	-	108	-	(1,879)
	_____	_____	_____	_____	_____	_____	_____
Total comprehensive income/(loss) for the period	-	-	(1,987)	-	108	(5,860)	(7,739)
Transfer from retained profits to other reserves	-	-	-	6	-	(6)	-
	_____	_____	_____	_____	_____	_____	_____
Balance as at 30 September 2017	46,800	56,489	2,984	1,336	(7,680)	(25,870)	74,059
	_____	_____	_____	_____	_____	_____	_____
Balance as at 1 April 2016	46,800	56,489	1,448	1,330	(6,050)	2,944	102,961
Loss attributable to equity holders of the Company	-	-	-	-	-	(9,962)	(9,962)
Other comprehensive income	-	-	1,949	-	267	-	2,216
	_____	_____	_____	_____	_____	_____	_____
Total comprehensive income/(loss) for the period	-	-	1,949	-	267	(9,962)	(7,746)
FY2016 final dividends paid	-	-	-	-	-	(1,341)	(1,341)
	_____	_____	_____	_____	_____	_____	_____
Balance as at 30 September 2016	46,800	56,489	3,397	1,330	(5,783)	(8,359)	93,874
	_____	_____	_____	_____	_____	_____	_____

	Share Capital	Share Premium	(Accumulated Loss) / Retained Profits	Total
<u>Company</u>	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 April 2017	46,800	56,726	(1,403)	102,123
Total comprehensive loss for the period	-	-	(1,144)	(1,144)
Balance as at 30 September 2017	46,800	56,726	(2,547)	100,979
Balance as at 1 April 2016	46,800	56,726	3,429	106,955
Total comprehensive loss for the period	-	-	(1,122)	(1,122)
FY2016 final dividends paid	-	-	(1,341)	(1,341)
Balance as at 30 September 2016	46,800	56,726	966	104,492

1(d)(ii) 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 2017, share capital of the Company comprised 29,999,993 ordinary shares (FY2017: 29,999,993). There were no treasury shares held by the Company at 30 September 2017 and 2016.

1(d)(iii) 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.

The Company and the Group have applied the same accounting policies and methods of computation in preparing the financial statements for the current reporting period, compared with those for the audited financial statements for the year ended 31 March 2017.

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 2017, the Group adopted the new or amended FRS and Interpretations of FRS ("INT FRS") that are mandatory for application for the financial year. Changes to the Group's accounting policies have been made as required, in accordance with the transitional provision in the respective FRS and INT FRS.

The adoption of these new or amended FRS and INT FRS did not result in substantial changes to the accounting policies of the Group and the Company and had no material effect on the amounts reported for the current or prior financial years.

6. Loss 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.

	The Group	
	1st Half FY2018	1st Half FY2017
Loss attributable to equity holders of the Company (HK\$'000)	(5,860)	(9,962)
Weighted average number of shares	29,999,993	29,999,993
- Basic loss per share (HK cents)	(19.53)	(33.21)
- Fully diluted loss per share (HK cents)	(19.53)	(33.21)

Fully diluted loss per share is similar to the basic loss per share as the Group did not have any potential dilutive ordinary shares outstanding as at 30 September 2017 and 30 September 2016.

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 2017	31 Mar 2017	30 Sep 2017	31 Mar 2017
	HK\$	HK\$	HK\$	HK\$
Net asset value per ordinary share based on the existing share capital as at the end of the respective period	2.47	2.73	3.37	3.40

The number of ordinary shares outstanding for the computation of net asset value per ordinary share is 29,999,993 (FY2017: 29,999,993).

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 FY2018	1 st Half FY2017	+/(−)
	(Apr-Sep 17)	(Apr-Sep 16)	
Professional IT Services	HK\$'000	HK\$'000	%
IT Services, including sale of third-party hardware and software	10,138	16,950	(40)
Maintenance and Support Services	23,043	27,115	(15)
	—————	—————	
Total Professional IT Services Revenue	33,181	44,065	(24)
Azeus Products	8,030	4,239	89
	—————	—————	
Total Revenue	41,211	48,304	(15)

The Group derives its revenue from two operating segments – Professional IT Services and Azeus Products. Professional IT Services includes two core business areas, IT services, and maintenance and support services.

Group revenue decreased by 14.7% to HK\$41.2 million in 1H FY2017, as compared to HK\$48.3 million in the last corresponding period.

IT services accounted for 24.6% (1H FY2017: 35.1%) of total revenue in 1H FY2018. The fees from IT services were lower in 1H FY2017 due to fewer contracts implemented in 1H FY2018.

Revenue from maintenance and support services decreased by 15.0% to HK\$23.0 million in 1H FY2018. This business segment accounted for 55.9% (1H FY2017: 56.1%) of total revenue in 1H FY2018. One major maintenance and support outsourcing contract ended in the last corresponding period, hence less revenue was earned in 1H FY2018.

Azeus Products accounted for 19.5% of the total revenue and has increased by 89.4% to HK\$8.0 million in 1H FY2018. The revenue is contributed by the sale of two proprietary products and its professional services, “Azeus Convene” and “AzeusCare”. We develop and commercialise both Azeus Products.

Azeus Products subscription revenues are recognised ratably over the contract terms beginning on the commencement date of each contract, which is the date the Company’s service is made available to customers, while professional services are recognised by using the stage of completion method.

b. Cost of Sales and Gross Profit Margin

Cost of sales mainly consists of direct expenses related to direct employee salaries for delivering our service and providing the support, cost of third party hardware and software products to be used in IT service implementation projects, hosting the Group’s cloud-based application and cost of subcontractor and consultancy services and amortisation of intangible assets.

The Group’s cost of sales in 1H FY2018 decreased by HK\$0.8 million, from HK\$33.3 million to HK\$32.5 million mainly due to decrease in repair and maintenance cost by HK\$1.5 million and subcontractor fee of HK\$1.9 million. The amount was offset by the increase of amortisation of intangible assets by HK\$1.4 million.

Overall, the Group’s gross profit margin decreased from 31.1% to 21.2%.

c. Other income & other gains/(losses) – net

	1 st Half FY2018	1 st Half FY2017	+ / (-)
	(Apr-Sep 17)	(Apr-Sep 16)	
	HK\$'000	HK\$'000	%
Other income comprised:			
Interest income	8	12	(33)
Subtotal	8	12	(33)
Other gains/(losses) - net comprised:			
Net foreign exchange gains/(losses)	3,175	(3,272)	(197)
Subtotal	3,175	(3,272)	(197)

Net foreign exchange gains in 1H FY2018 arose from the translation of net monetary assets denominated in foreign currencies especially in Great Britain Pound “GBP” at the closing rate at the balance sheet date. As at 30 September 2017, GBP strengthened against HKD by 7.8% resulted in a net foreign exchange gains in 1H FY2018.

d. Selling and marketing expenses

Selling and marketing expenses are one of our largest costs, consisting primarily of salaries and related expenses as well as marketing programs. Marketing programs consist of advertising, trade shows and events, corporate communications, brand building and product marketing activities.

Selling and marketing expenses decreased by 23.0% or HK\$2.0 million in 1H FY2018 due to the decrease in contracted sales representative cost of HK\$1.3 million.

e. Administrative and other operating expenses

Administrative and other operating expenses includes legal and professional fee, Directors’ fee, rent and rates and other operating expenses. Amount has decreased by 14.9% or HK\$1.9 million in 1H FY2018.

f. Net loss after taxation

The Group managed to improve the result and reported a net loss of HK\$5.9 million in 1H FY2018 from a net loss of HK\$10.0 million in 1H FY2017.

Balance Sheet

a. Unbilled Revenue on Service Contracts

Unbilled revenue on services contracts increased by HK\$5.1 million due to newly secured projects that have just commenced but yet to reach their payment milestones.

b. Trade and other receivables

Trade and other receivables decreased by 30.3% from HK\$24.6 million to HK\$17.1 million, due to less billings issued nearing the end of 1H FY2018. All net trade receivables as at 30 September 2017 are considered recoverable.

c. Inventory

Inventories comprise third-party hardware and software products to be used in IT Service implementation projects under the relevant contract terms. The balance represents items that were pending the completion of the corresponding acceptance tests. Therefore, revenue associated with these hardware and software products has not been recognised.

d. Intangible assets – development cost of Azeus Products

Payroll-related costs of employees who are directly attributable to the development of new features, upgrades and enhancements of Azeus Products are capitalised as intangible assets. HK\$5.3 million capitalised and amortisation of HK\$5.1 million during 1H FY 2018 resulted in a net increase of HK\$0.2 million in carrying value at 30 September 2017.

e. Deferred Revenue

Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services and are recognised as the revenue recognition criteria are met. The Company generally invoices customers in annual installments. Deferred revenue that will be recognised during the succeeding twelve months period is recorded as current deferred revenue, while more than twelve months is recorded as non-current. Deferred revenue has increased to HK\$9.2 million due to more collections from subscription agreements were entered into near the period-end.

f. Share capital and reserves

The Group's shareholders' equity decreased from HK\$81.8 million at the beginning of the year to HK\$74.1 million as at 30 September 2017, mainly due to the loss generated from operations of HK\$5.9 million in 1H FY2018.

Cash flow Statement

For the six months ended 30 September 2017, the Group's net cash provided by operating activities was HK\$3.1 million. Cash used in investing activities was primarily for the investment in intangible asset of HK\$5.4 million.

Overall, the Group managed to maintain a cash position of HK\$35.7 million as at 30 September 2017. The Group has no debts and bank borrowings.

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

There has been no significant variance in the results of the Group in the first half of FY2018 as compared to the prospect statement disclosed in the announcement of results for the full year ended 31 March 2017.

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.

Azeus' core business, Professional IT services, continues to remain sound. The Group's latest project win on 2 November 2017 brought the total value of contracts secured by Azeus to over HK\$112.9 million in the year-to-date with contract periods ranging between two to ten years. The Group expects to see progressive recognition of revenues from the recent contract wins following their implementation in the second half of FY2018.

In addition, Azeus' products business demonstrated traction with newly acquired customers. Although Azeus has made progress in its cloud-based offering, the Group needs to invest further to attain greater market share and explore opportunities in new markets to diversify its future income stream.

Barring any unforeseen circumstances, the Group remains cautious about the outlook for FY2018 although it expects an improved result from the significant loss recorded in FY2017.

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 2017.

(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 was declared/recommended during the period ended 30 September 2016.

(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.

- 18. Confirmation that the issuer has procured undertakings from all its directors and executive officers (in format set out in Appendix 7.7) under Rule 720 (1) of the SGX-ST Listing Manual.**

The Company confirms that it has procured undertakings from all its directors and executive officers (in the format set out in Appendix 7.7) under Rule 720 (1) of the SGX-ST Listing Manual.

BY ORDER OF THE BOARD

LEE WAN LIK
MANAGING DIRECTOR
13 November 2017

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 2017 to be false or misleading.

On behalf of the Board of Directors

LEE Wan Lik
Executive Director

LAM Pui Wan
Executive Director