

AZEUS SYSTEMS HOLDINGS LTD.

Unaudited Full Year Financial Statement and Dividend Announcement for the year ended 31 March 2018

Part I – INFORMATION REQUIRED FOR ANNOUNCEMENTS OF FULL 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 financial year ended 31 March 2018

(Expressed in Hong Kong Dollars)

	The Group		
	2018	2017	+ / (-)
	HK\$'000	HK\$'000	%
Revenue	102,360	97,893	5
Cost of sales	(69,986)	(72,419)	(3)
	<u> </u>	<u> </u>	
Gross profit	32,374	25,474	27
Other income	504	525	(4)
Amount received in settlement of maintenance claim	7,254	-	N/A
Other gains / (losses) - net	4,546	(4,943)	192
Selling and marketing expenses	(14,765)	(16,218)	(9)
Administrative and other operating expenses	(27,084)	(26,123)	4
	<u> </u>	<u> </u>	
Profit / (loss) before tax	2,829	(21,285)	113
Income tax expense	(964)	(322)	199
	<u> </u>	<u> </u>	
Profit / (loss) attributable to equity holders of the Company	1,865	(21,607)	109
	<u> </u>	<u> </u>	
Earnings / (loss) per share (basic and diluted)	6.22 cents	(72.02) cents	
	<u> </u>	<u> </u>	

1(a)(ii) Statement of Comprehensive Income for the financial year ended 31 March 2018

(Expressed in Hong Kong Dollars)

	The Group		
	2018	2017	+ / (-)
	HK\$'000	HK\$'000	%
Profit / (loss) attributable to equity holders of the Company	1,865	(21,607)	109
<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	(3,447)	3,523	(198)
<u>Items that will not be reclassified subsequently to profit or loss:</u>			
Actuarial gains / (losses) on defined retirement benefits – net of tax	7,877	(1,738)	553
Other comprehensive income, net of tax	4,430	1,785	148
Total comprehensive income / (loss) attributable to equity holders of the Company	6,295	(19,822)	132

1(a)(iii) Note to Income Statement for the financial year ended 31 March 2018

(Expressed in Hong Kong Dollars)

Expenses included in cost of sales, selling and marketing expenses and administrative and other operating expenses are analysed as follows:			
	2018	2017	+ / (-)
	HK\$'000	HK\$'000	%
Depreciation of property, plant and equipment	(470)	(400)	18
Amortisation of intangible assets	(8,104)	(8,679)	(7)
Legal and professional fee	(2,511)	(1,541)	63
Rental expense – operating lease	(6,350)	(6,519)	(3)
Employee benefits (including directors' remuneration)	(76,408)	(75,206)	2
Retirement benefit expense	(1,235)	(1,481)	(17)
Third-party hardware and software	(279)	(786)	(65)
Third-party hardware and software support cost	(6,064)	(9,108)	(33)
Provision for doubtful debts and other receivables	(1,111)	(254)	337
Sub-contracting fee	(767)	(3,101)	(75)
Fee on audit services	(1,383)	(1,426)	(3)
Other expenses	(7,153)	(6,259)	14
	=====	=====	
Total cost of sales, selling and marketing and administrative and other operating expenses	(111,835)	(114,760)	(3)
	=====	=====	

Income tax			
Current income tax	(948)	(388)	144
Deferred income tax	(16)	66	(124)
	=====	=====	
Income tax expenses	(964)	(322)	199
	=====	=====	

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 31 March 2018
(Expressed in Hong Kong Dollars)

	<u>The Group</u>			<u>The Company</u>		
	31 March 2018	31 March 2017	+ / (-)	31 March 2018	31 March 2017	+ / (-)
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Current assets						
Cash and cash equivalents	58,619	38,856	51	3,054	644	374
Pledged bank deposits	1,504	2,249	(33)	-	-	-
Trade and other receivables	21,607	24,594	(12)	46,593	52,350	(11)
Inventories	5,285	1,423	271	-	-	-
Unbilled revenue on service contracts	12,769	19,016	(33)	-	-	-
Current income tax assets	1,566	1,580	(1)	-	-	-
	=====	=====		=====	=====	
	101,350	87,718	16	49,647	52,994	(6)
	=====	=====		=====	=====	
Non-current assets						
Investment in subsidiaries	-	-	-	50,467	50,386	-
Property, plant and equipment	952	983	(3)	-	-	-
Intangible assets	14,803	15,491	(4)	-	-	-
Deferred tax assets	219	1,124	(81)	-	-	-
Refundable deposit	1,382	1,398	(1)	-	-	-
	=====	=====		=====	=====	
	17,356	18,996	(9)	50,467	50,386	-
	=====	=====		=====	=====	
Total assets	118,706	106,714	11	100,114	103,380	(3)
	=====	=====		=====	=====	

Azeus Systems Holdings Ltd.
Balance Sheet as at 31 March 2018
(Expressed in Hong Kong Dollars)
(Continued)

	<u>The Group</u>			<u>The Company</u>		
	31 March 2018	31 March 2017	+ / (-)	31 March 2018	31 March 2017	+ / (-)
	HK\$'000	HK\$'000	%	HK\$'000	HK\$'000	%
Current liabilities						
Trade and other payables	10,288	5,629	3	1,457	1,257	16
Advances received from customers	2,488	3,303	(25)	-	-	-
Deferred revenue	13,739	5,327	158	-	-	-
Current income tax liabilities	955	80	1,094	-	-	-
	<u>27,470</u>	<u>14,339</u>	92	<u>1,457</u>	<u>1,257</u>	16
Non-current liabilities						
Deferred revenue	952	133	616	-	-	-
Provision for defined retirement benefit	2,099	10,415	(80)	-	-	-
Other liabilities	92	29	(217)	-	-	-
	<u>3,143</u>	<u>10,577</u>	(70)	<u>-</u>	<u>-</u>	-
Total liabilities	30,613	24,916	23	1,457	1,257	16
Net assets	88,093	81,798	8	98,657	102,123	(3)
Total Equity:						
Share capital	46,800	46,800	-	46,800	46,800	-
Share premium	56,489	56,489	-	56,726	56,726	-
Foreign currency translation reserve	1,524	4,971	(69)	-	-	-
Other reserves	1,350	1,330	2	-	-	-
Defined retirement benefits	89	(7,788)	(101)	-	-	-
Accumulated losses	(18,159)	(20,004)	(9)	(4,869)	(1,403)	247
	<u>88,093</u>	<u>81,798</u>	8	<u>98,657</u>	<u>102,123</u>	(3)

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

The Group had no bank borrowings or debt securities as at 31 March 2018 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 financial year ended 31 March 2018

	<u>The Group</u>	
	2018	2017
	HK\$'000	HK\$'000
Cash flows from operating activities		
Profit/(loss) attributable to equity holders of the Company	1,865	(21,607)
Adjustments for:		
Income tax expense	964	322
Depreciation of property, plant and equipment	470	400
Loss on disposal of property, plant and equipment	8	-
Amortisation of intangible assets	8,104	8,679
Interest income	(14)	(20)
Retirement benefit expense	1,235	1,481
	<hr/>	<hr/>
	12,632	(10,745)
Changes in working capital		
Pledged bank deposits	745	1,540
Trade and other receivables	1,159	(4,650)
Unbilled revenue on service contracts	6,217	3,602
Refundable deposits	16	(1,010)
Inventories	(3,862)	(1,074)
Trade and other payables	1,832	(338)
Provision for defined retirement benefits	(672)	(1,835)
Deferred revenue	9,231	1,641
Advances received from customers	(815)	(1,694)
	<hr/>	<hr/>
Cash generated from / (used in) operations	26,483	(14,563)
Income tax (paid) / refund	(66)	418
	<hr/>	<hr/>
Net cash generated from / (used in) operating activities	26,417	(14,145)

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

Consolidated Statement of Cash Flows for the financial year ended 31 March 2018 (continued)

	<u>The Group</u>	
	2018	2017
	HK\$'000	HK\$'000
Cash flows from investing activities		
Purchases of property, plant and equipment	(443)	(452)
Additions of intangible assets	(7,416)	(10,927)
Interest received	14	20
	=====	=====
Net cash used in investing activities	(7,845)	(11,359)
Cash flows from financing activities		
Dividends paid to shareholders	-	(1,341)
	=====	=====
Cash used in financing activities	-	(1,341)
Net increase / (decrease) in cash and cash equivalents	18,572	(26,845)
Cash and cash equivalents at the beginning of the financial year	38,856	64,562
Effects of currency translation on cash and cash equivalents	1,191	1,139
	=====	=====
Cash and cash equivalents at the end of the financial year	58,619	38,856
	=====	=====

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 financial year ended 31 March 2018

	Share Capital	Share Premium	Foreign Currency Translation Reserve	Other Reserves	Defined Retirement Benefits	(Accumulated losses) / Retained Profits	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group							
Balance as at 1 April 2017	46,800	56,489	4,971	1,330	(7,788)	(20,004)	81,798
Profit attributable to equity holders of the Company	-	-	-	-	-	1,865	1,865
Other comprehensive (loss) / income	-	-	(3,447)	-	7,877	-	4,430
Total comprehensive (loss) / income	-	-	(3,447)	-	7,877	1,865	6,295
Transfer from retained profits to other reserves	-	-	-	20	-	(20)	-
Balance as at 31 March 2018	46,800	56,489	1,524	1,350	89	(18,159)	88,093
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	-	-	-	-	-	(21,607)	(21,607)
Other comprehensive (loss) / income	-	-	3,523	-	(1,738)	-	1,785
Total comprehensive (loss) / income	-	-	3,523	-	(1,738)	(21,607)	(19,822)
FY2016 final dividends paid	-	-	-	-	-	(1,341)	(1,341)
Balance as at 31 March 2017	46,800	56,489	4,971	1,330	(7,788)	(20,004)	81,798
				Share Capital	Share Premium	(Accumulated losses) / Retained profits	Total Equity
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company							
Balance as at 1 April 2017				46,800	56,726	(1,403)	102,123
Total comprehensive loss for the year				-	-	(3,466)	(3,466)
Balance as at 31 March 2018				46,800	56,726	(4,869)	98,657
Balance as at 1 April 2016				46,800	56,726	3,429	106,955
Total comprehensive loss for the year				-	-	(3,491)	(3,491)
FY2016 final dividends paid				-	-	(1,341)	(1,341)
Balance as at 31 March 2017				46,800	56,726	(1,403)	102,123

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 31 March 2018, share capital of the Company comprises 29,999,993 ordinary shares (FY2017: 29,999,993). There were no treasury shares held by the Company at 31 March 2018 and 2017.

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.

The Company and the Group have applied the same accounting policies and methods of

computation in the preparation of the financial statements for the current reporting period 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. Earnings / (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 dividend.

	<u>The Group</u>	
	2018	2017
Profit / (loss) attributable to equity holders of the Company (HK\$'000)	1,865	(21,607)
Weighted average number of shares	29,999,993	29,999,993
- Basic earnings / (loss) per share (HK cents)	6.22	(72.02)
- Fully diluted earnings / (loss) per share (HK cents)	6.22	(72.02)

Fully diluted earnings / (loss) per share is similar to the basic earnings per share as the Group did not have any potential dilutive ordinary shares outstanding as at 31 March 2018 and 31 March 2017.

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.**

Net Asset Value Per Share

	<u>The Group</u>		<u>The Company</u>	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	HK\$	HK\$	HK\$	HK\$
Net asset value per ordinary share based on the existing share capital as at the end of the financial year.	2.94	2.73	3.29	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

	2018	2017	+ / (-)
	HK\$'000	HK\$'000	%
Professional IT Services			
IT Services, including sales of third-party hardware and software	31,933	32,711	(2)
Maintenance and Support Services	46,023	53,325	(14)
	_____	_____	
Total Professional IT Services Revenue	77,956	86,036	(9)
Azeus Products	24,404	11,857	106
	_____	_____	
Total Revenue	102,360	97,893	5

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 increased by 4.6% to HK\$102.4 million for FY2018 as compared to HK\$97.9 million in FY2017.

IT Services accounted for 31.2% of total revenue for FY2018 (FY2017: 33.4%). Revenue from IT Services decreased by HK\$0.8 million or 2.4% due to decrease in sales of third party hardware and software by HK\$0.8 million in FY2018. Excluding the third-party hardware and software sales, the Group was able to achieve the same amount of IT Services revenue as compared to FY2017.

Revenue from Maintenance and Support Services decreased by 13.7% or HK\$7.3 million from HK\$53.3 million in FY2017 to HK\$46.0 million in FY2018. This business segment accounted for 45.0% (FY2017: 54.5%) of total revenue in FY2018. The lower revenue in FY2018 was due to the expiry of one major maintenance and support outsourcing contract ended at the beginning of this financial year.

Azeus Products accounts for 23.8% (FY2017: 12.1%) of the total Group revenue. Revenue from Azeus Products increased by HK\$12.5 million or 105.0% from HK\$11.9 million in FY2017 to HK\$24.4 million in FY2018. The revenue is contributed by the sale of two proprietary products — “Azeus Convene” and “AzeusCare”, and associated professional services. We developed and commercialised both Azeus Products. Revenue is in the form of subscription revenues and the related professional services, such as project management, implementation services and training fees etc.

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 services 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 decreased by HK\$2.4 million or 3.3% to HK\$70.0 million in FY2018 due to decrease in third-party hardware and software support cost of HK\$3.0 million and subcontracting fee of HK\$2.3 million. The amount was also offset by an increase in direct salaries of HK\$1.2 million.

Overall, the Group was able to achieve a better gross profit margin at 31.6% in FY2018 as compared to 26.0% at FY2017, an increase by six percentage points.

c. Other income and other losses – net

	2018	2017	+ / (-)
	HK\$'000	HK\$'000	%
Amounts received in settlement of a maintenance claim	7,254	-	N/A
Subtotal	7,254	-	N/A
Other income comprise of:			
Interest income	14	20	(30)
Sundry income	490	505	(3)
Subtotal	504	525	(4)
Other gains / (losses) – net foreign exchange gains/ (losses)	4,546	(4,943)	192
Subtotal	4,546	(4,943)	192

The Group received a one-off amount of HK\$7.3 from settlement of a maintenance claim with a customer, which contributed significantly to the profit for FY2018.

Net foreign exchange gains in FY2018 arose from the translation of net monetary assets denominated in foreign currencies especially in Great British Pound (“GBP”) at the closing rate at the balance sheet date. As at balance sheet date, GBP strengthened against HKD by 13.4% (FY 2018: GBP 1 : HKD 11.0; FY 2017: GBP 1 : HKD 9.7)

d. Selling and marketing expenses

Selling and marketing expenses are one of our largest costs and consist primarily of salaries and related expenses, and 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 8.6% or HK\$1.4 million to HK\$14.8 million in FY2018 as compared to HK\$16.2 million in FY2017. The Group reduced the selling and marketing activities (e.g. conference and sponsorship) for Azeus Products business segment. On the other hand, the Group continues to invest in expanding our global sales team to focus on adding new customers.

e. Administrative and other operating expenses

Administrative and other operating expenses includes legal and professional fee, Directors' fees, audit fee, rent and rates and other operating expense. Amount has increased slightly by HK\$1.0 million from HK\$26.1 to HK\$27.1 million as FY2018.

f. Net profit / (loss) after taxation

Net profit after taxation for FY2018 included a one-off income of HK\$7.3 million from settlement of a maintenance claim and a higher currency exchange gain of HK\$4.5 million. As a result, the Group reported net profit of HK\$1.9 million in FY2018 as compared to a loss of HK\$21.6 million in FY2017. In the absence of the one-off income above, the Group was able to generate higher revenue without increasing the cost operationally.

Balance sheet

a. Unbilled revenue on service contracts

The customer pays the fixed amount based on a payment schedule. If the services rendered by Azeus exceed the payment, a contract asset - unbilled revenue on service contract is recognised. Unbilled revenue on service contracts decreased by HK\$6.2 million due to the completion of major IT services projects on hand. The relevant milestones payments were reached, accepted and billings were made near the end of FY2018.

b. Trade and other receivables

Trade and other receivables decreased by 12.2% from HK\$24.6 million to HK\$21.6 million as majority of the IT Services projects were completed during the year; the relevant payment milestones were reached and payments were settled. All the net trade receivables as of 31 March 2018 are considered recoverable.

c. Inventories

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

d. Intangible assets – development cost of Azeus Products

Payroll related costs for employees who are directly involved in the development of new features, upgrades and enhancements of Azeus Products are capitalised as intangible assets. HK\$7.4 million capitalised (FY2017:HK\$10.9 million) and amortisation of HK\$8.1 million during FY2018 (FY2017:HK\$8.7 million) resulted in a net increase of HK\$0.7 million in carrying value in FY2018.

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 12 months is recorded as non-current. Total deferred revenue has increased to HK\$14.7 million from HK\$5.5 million by 167.3% due to increase in product sales and more collections from subscription agreements of Azeus Products business segment were entered into near the year-end.

f. Share capital and reserves

The Group's shareholders' equity for FY2018 increased from HK\$81.8 million in FY2017 to HK\$88.1 million mainly due to the net profit generated of HK\$1.9 million and the increase in actuarial gains on defined retirement benefit in FY2018.

Cash flow statement

For the year ended 31 March 2018, the Group's net cash generated from operating activities was HK\$26.5 million as opposed to HK\$14.1 million net cash used in operating activities in FY2017. The Group managed to improve the cash position from HK\$38.9 million to HK\$58.6 million as at 31 March 2018. 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.

The Group issued profit guidance for FY2018 on 13 November 2017 and reported an improved results will be expected in FY2018 from the significant loss recorded in FY2017. The financial results of FY2018 is consistent with the statements made in the profit guidance.

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 managed to secure a few project wins since November 2017 which brought the total value of contracts secured by Azeus to over HK\$133.4 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 FY2019 and FY2020.

In addition, "Azeus Products" business demonstrated traction with newly acquired customers. The Group made good progress in its Azeus Products business and its revenue has more than doubled from FY2017. The Group will continue to invest further to attain greater market shares and explore opportunities in new markets to diversify its future income stream.

Barring unforeseen circumstances, the Group remains cautious about the outlook of FY2019.

11. Dividend

(a) Current Financial Period Reported On

Any dividend declared for the current financial period reported on?

Please refer to note 12.

(b) Corresponding Period of the Immediately Preceding Financial Year

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

No.

(c) Date payable

Not applicable.

(d) Books closure date

Not applicable.

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

A first and final dividend of 6.2 HK cents per ordinary share is recommended for this financial year ended 31 March 2018. The said dividend will be subject to shareholders' approval in the upcoming Annual General Meeting on 13 July 2018.

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.**

Management has evaluated the operating segments based on the reports reviewed by the chief operating decision makers (CODM) to make strategic decisions. The CODM consist of the Managing Director, Executive Directors and Senior Management.

The CODM considers the Group to have 2 operating segments which are the provision of Professional Information Technology Services (“Professional IT Services”) and sale of proprietary products (Azeus Products). There are 3 major revenue streams under Professional IT Services: “IT Services, including sales of third party hardware and software”, “Maintenance and Support Services” as the services and customers are similar in nature. The CODM assess the performance of the operating segments based on a measure of gross profit less selling and marketing expenses.

- 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.**

Please refer to note 8.

15. Segment Information (unaudited)

	Professional IT Services		Azeus Products		Total	
	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	77,956	86,036	24,404	11,857	102,360	97,893
	=====	=====	=====	=====	=====	=====
Segment results	28,118	30,975	(10,509)	(21,719)	17,609	9,256
	=====	=====	=====	=====	=====	=====
Amount received in a settlement of a maintenance claim	7,254	-	-	-	7,254	-
Unallocated income / (expenses):						
Other income					504	525
Other gains / (losses) - net					4,546	(4,943)
Depreciation of property, plant and equipment					(470)	(400)
Legal and professional fee					(2,511)	(1,541)
Rental expense – operating lease					(6,350)	(6,519)
Retirement benefit expense					(1,235)	(1,481)
Fees on audit services					(1,383)	(1,426)
Administrative salaries					(5,833)	(5,833)
Insurance					(1,587)	(1,387)
Directors compensation					(1,290)	(1,243)
Others expense					(6,425)	(6,293)
					=====	=====
Profit / (Loss) before tax					2,829	(21,285)
Income tax expense					(964)	(322)
					=====	=====
Profit / (Loss) attributable to equity holders of the Company					1,865	(21,607)

15. Segment Information (unaudited) (continued)

	Professional IT Services		Azeus Products		Total	
	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities						
Segment assets	27,645	33,692	20,112	21,526	47,757	55,218
	=====	=====	=====	=====		
Unallocated assets					70,949	51,496
					=====	=====
Total assets					118,706	106,714
					=====	=====
Segment liabilities	3,002	3,164	15,845	6,551	18,847	9,715
	=====	=====	=====	=====		
Unallocated liabilities					11,766	15,201
					=====	=====
Total liabilities	-	-	-	-	30,613	24,916
					=====	=====

CODM monitors the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Assets and liabilities are managed on a group basis and are not allocated to operating segments except for trade receivables, unbilled revenue on service contracts, intangible assets, advances received from customers and deferred revenue as they cannot be directly attributable to individual segments and it is impractical to arbitrarily allocate them to the segments.

Geographical segments

Revenue information is based on the geographical location of customers.

	Revenue	
	2018	2017
	HK\$'000	HK\$'000
Hong Kong	78,860	80,497
United Kingdom	9,637	11,887
Australia and New Zealand	4,242	1,668
North America	4,585	1,011
Others	5,036	2,830
Total	102,360	97,893

15. Segment Information (unaudited) (continued)

A total of HK\$76.9 million, 75.1% of total revenue (FY2017: HK\$79.6 million, 81.3% of total revenue) from external customers is derived from the provision of IT services to the public sector of Hong Kong Government.

Segment non-current assets are based on the geographical location of the assets.

	Non-current assets	
	2018	2017
	HK\$'000	HK\$'000
Hong Kong and China	1,539	1,430
United Kingdom	33	65
Philippines	975	2,010
Bermuda and BVI	14,803	15,491
Australia	6	-
Total	17,356	18,996

*Non-current assets information presented above consists of property, plant and equipment, intangible assets, deferred income tax assets and refundable deposits as presented in the consolidated balance sheet.

16. A breakdown of sales

	The Group		
	2018	2017	+ / (-)
	HK\$'000	HK\$'000	%
Sales reported for first half year	41,211	48,304	(15)
Net loss after tax for first half year	(5,860)	(9,962)	(41)
Sales reported for second half year	61,149	49,589	23
Net profit/(loss) after tax for second half year	7,725	(11,645)	166

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

	The Group		
	2018	2017	+ / (-)
	HK\$'000	HK\$'000	%
Ordinary (note 11)	-	-	N/A
Preference	N/A	N/A	N/A
Total	-	-	N/A

18. **Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the issuer pursuant to Rule 704(13) in the format below. If there are no such persons, the issuer must make an appropriate negative statement.**

Name	Age	Family relationship with any director and/or substantial shareholder	Current position and duties, and the year position was first held	Details of changes in duties and position held, if any, during the year
Lee Wan Lik	56	Spouse of Ms Lam Pui Wan, Executive Director	<p>Managing Director of the Company with effect from 12 May 2004.</p> <p>Director of Azeus Systems Limited, Hong Kong, a wholly-owned subsidiary of the Company, with effect from 15 January 1991.</p> <p>Director of Azeus Systems Philippines Inc., a wholly-owned subsidiary of the Company, with effect from 15 July 1994.</p> <p>Director of Azeus Systems Manila (BVI) Ltd, a wholly-owned subsidiary of the Company, with effect from 12 May 2004.</p> <p>Director of BigontheNet Pte Ltd., a wholly-owned subsidiary of the Company, with effect from 17 February 2005.</p> <p>Director of Azeus UK Ltd., a wholly-owned subsidiary of the Company, with effect from 25 May 2010.</p> <p>Director of Azeus Pty Ltd., a wholly-owned subsidiary of the Company, with effect from 12 February 2015.</p> <p>Director of Azeus Convene (BVI) Limited, a wholly-owned subsidiary of the Company, with effect from 22 June 2016.</p> <p>Director of Convene, Inc., a wholly-owned subsidiary of the Company, with effect from 4 November 2016</p>	N.A.

- 18. Disclosure of person occupying a managerial position in the issuer or any of its principal subsidiaries who is a relative of a director or chief executive officer or substantial shareholder of the issuer pursuant to Rule 704(13) in the format below. If there are no such persons, the issuer must make an appropriate negative statement.**

(continued)

Lam Pui Wan	58	Spouse of Mr Lee Wan Lik, Managing Director	<p>Executive Director of the Company with effect from 12 May 2004.</p> <p>Director of Azeus Systems Limited, Hong Kong, a wholly-owned subsidiary of the Company, with effect from 15 January 1991.</p> <p>Director of Azeus Systems Manila (BVI) Ltd, a wholly-owned subsidiary of the Company, with effect from 12 May 2004.</p> <p>Director of Azeus Convene Malaysia Sdn. Bhd., a wholly-owned subsidiary of the Company, with effect from 19 April 2016.</p>	N.A.
-------------	----	--	---	------

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

No IPT mandate obtained.

- 20. 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

30 May 2018