AZEUS SYSTEMS HOLDINGS LTD.

ANNUAL REPORT 2006

06

ANNUAL REPORT

AZEUS

FIRST CMM LEVEL 5 IN GREATER CHINA

Achieve Greater Heights

Contents

Corporate Profile

We were the first company in Hong Kong to be appraised at the highest level (Level 5) of the CMMI-SW model in November 2003. This is a strong endorsement of our commitment to achieving best practice processes and maintaining high quality standards for our IT solutions and services.

Established in 1991, we are a leading provider of IT consultancy services based in Hong Kong. We were the first company in Hong Kong to be appraised at the highest level (Level 5) of the CMMI-SW model in November 2003. This is a strong endorsement of our commitment to achieving best practice processes and maintaining high quality standards for our IT solutions and services.

Under our IT services segment, we design and implement a broad range of IT software and systems, as well as develop and integrate various software programs of IT systems to fulfill the outsourcing needs of our customers.

We also provide a vast spectrum of maintenance and support services. In addition, we are engaged in business process outsourcing ("BPO"). One of our milestone achievements is having won the first business outsourcing project from the Hong Kong government – covering IT consulting, IT maintenance and support, as well as office operations and support services.

We have a solid track record of completing over 100 projects for more than 40 government departments, as well as over 16 projects for the private sector in Hong Kong. While our strength has traditionally been in the public sector, we continue to develop our business on the regional commercial front.

We have an experienced management team, supported by a core group of highly competent and skilled IT professionals. Together, we are committed to continuously engineer innovative IT solutions and deliver excellent IT services.

Our established quality assurance systems, working methodologies and processes allow for a seamless integration of operations across multiple locations. Our software development centres are based in the Philippines and China, where lower costs of operations in these countries enable us to maintain competitive pricing for our tenders, without compromising the quality of our work.

Managing Director's Message

Dear shareholders,

On behalf of the Board of Directors, I am pleased to present our results for the financial year ended March 31, 2006 ("FY2006").

The Year in Review

We achieved an encouraging set of results. Our Group's net profit rose 12% on the back of a 42% increase in revenue to HK$86.0 million in FY2006, from HK$60.5 million in the previous corresponding period.

Our gross profit climbed 63% to HK$42.1 million while gross profit margin also improved to 48.9% in FY2006 from 42.6% in FY2005. This was achieved despite a significant 26% increase in cost of sales to HK$43.9 million in FY2006, which was mainly attributable to additional headcount and additional cost from the sale of hardware as part of our contract. The increase in headcount by 32% to 318 from 241 in the previous corresponding period, formed part of our Group's growth strategy to ensure that we have adequate resources to capture more business opportunities and address the fast-growing demand for quality and quantity of service delivering capabilities.

Segmental Contributions

We derive our revenue from three main business segments – IT services, maintenance and support services, and business process outsourcing ("BPO"). The IT services segment remains our biggest revenue contributor.

IT Services

Accounting for 82% of total revenue in FY2006, this segment contributed HK$70.3 million to revenue in FY2006, an increase of 52% from HK$46.2 million in the last corresponding period.

The overall fees from IT services were higher in FY2006 because of the higher value of contracts secured and higher percentage of completion achieved compared to FY2005.

Maintenance and Support Services

Maintenance and support services fees rose 4% to HK$10.2 million in FY2006, due to a rise in both the number and size of the maintenance and support service contracts.

Our extensive scope of maintenance and support services includes software upgrades, problem resolution and bug fixing, disaster recovery planning and disaster recovery drill and system technical support.

Managing Director's Message

In December 2005, Azeus was also the first company outside mainland China to achieve Level 2 of the Computer Information System Integration Qualification Certification ("SI Certification"), currently the highest level of accreditation in Hong Kong which denotes capabilities at the provincial/municipal level as awarded by the PRC's Ministry of Information Industry.

Business Process Outsourcing

Contribution from the BPO segment climbed 20% to HK$5.4 million in FY2006 due to higher chargeable rates, and a larger headcount that was outsourced to the Hong Kong Government Intellectual Property Department.

We are privileged to be the selected IT consultancy services provider for the first BPO project awarded by the Intellectual Property Department of the Hong Kong government, which involves the outsourcing of maintenance and support for office operations for five years beginning December 2001 and ending in November 2006.

Developments in FY2006

During the year under review, we have enlarged our footprint by winning several major contracts from the Hong Kong SAR Government, the latest being a new contract with a value of US$1.2 million from the Independent Commission Against Corruption ("ICAC"), involving the integration and migration of IT facilities from ICAC's existing offices to its new headquarters and the acquisition of implementation services for corporate information and resource management system. The ICAC project, which is scheduled to commence in June 2006 and completed by June 2008, is expected to contribute towards our results for FY2007 and FY2008.

We also won a large-scale contract worth US$10.2 million with the Hong Kong Police Force in March 2005 to develop and install IT systems over two years, followed by a 10-year maintenance and support period. The project had a positive impact on our revenue and earnings for FY2006.

In December 2005, Azeus was also the first company outside mainland China to achieve Level 2 of the Computer Information System Integration Qualification Certification ("SI Certification"), currently the highest level of accreditation in Hong Kong which denotes capabilities at the provincial/municipal level as awarded by the PRC's Ministry of Information Industry.

Managing Director's Message

We are delighted to be awarded the abovementioned prestigious landmark IT projects and additional orders from various Hong Kong SAR Government departments, against stiff competition from many other IT system developers and integrators, as well as being awarded the SI Certification.

These attest to Azeus' strong reputation as a provider of quality IT services and our strong track record as a "public sector IT specialist", having managed many major IT projects including data-sensitive IT systems, for the Hong Kong SAR Government. Being awarded the SI Certification enabled us better market access to China, and serves as an impetus to strengthen our position through our subsidiary in Dalian, China. With a stronger foothold in the market and an enlarged customer base, we are well positioned as a niche player to the Hong Kong government.

Outlook for FY2007

We believe the prospects for the IT services industry worldwide remain encouraging. Going forward, we will embark on a two-pronged approach in our strategies for growth. While we will remain focused on sustaining our market share in the Hong Kong public sector, we will spend significant efforts and resources to penetrate new markets regionally and pursue investment opportunities in FY2007.

Managing Director's Message

We are attempting to tap the growing IT software development outsourcing market with our established operations in Hong Kong, and by leveraging on the competitive edge of our low-cost development centers in Philippines and Dalian, China. We continue to retain existing customers and win new ones with our extensive track record, CMMI-certified processes, experienced management team and skilled technical professionals.

Appreciation

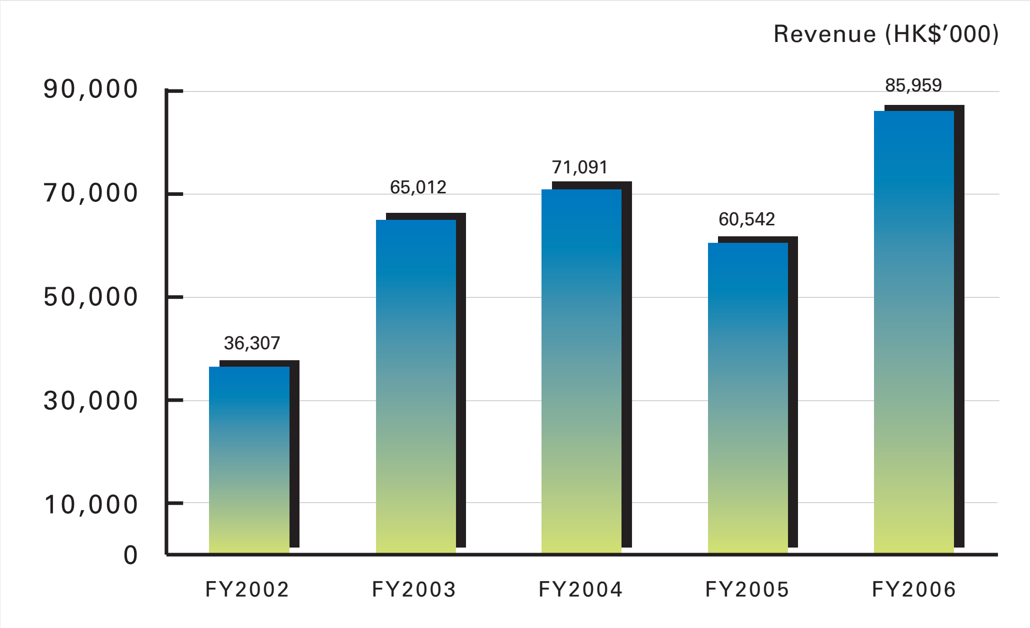
In closing, I would like to thank our shareholders, customers, staff, suppliers and business partners for their support over the past year. In particular I would like to thank the staff of Azeus who have continually demonstrated their professionalism and commitment to the company. On behalf of the Board of Directors and Management team, we wish to extend our appreciation and reward all shareholders by declaring a final dividend totaling 4.90 HK cents.

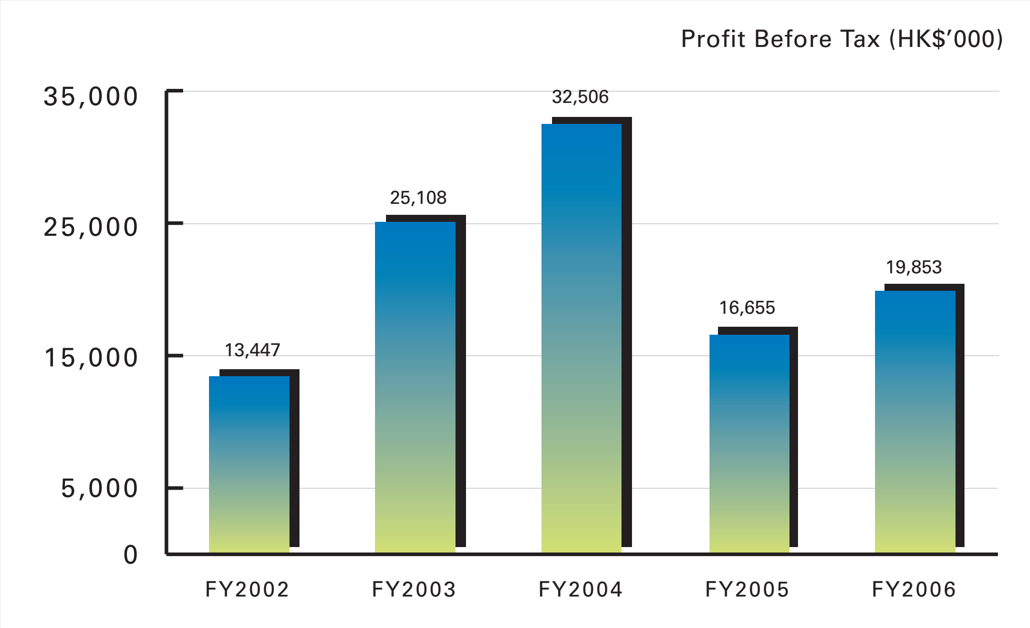
With our strong track record, strategies for growth, commitment from the management and unwavering support from our shareholders, we are poised to play a greater role in expanding our presence and capabilities in Asia.

I look forward to your continued support to build Azeus into a stronger organization.

Lee Wan Lik
Founder and Managing Director

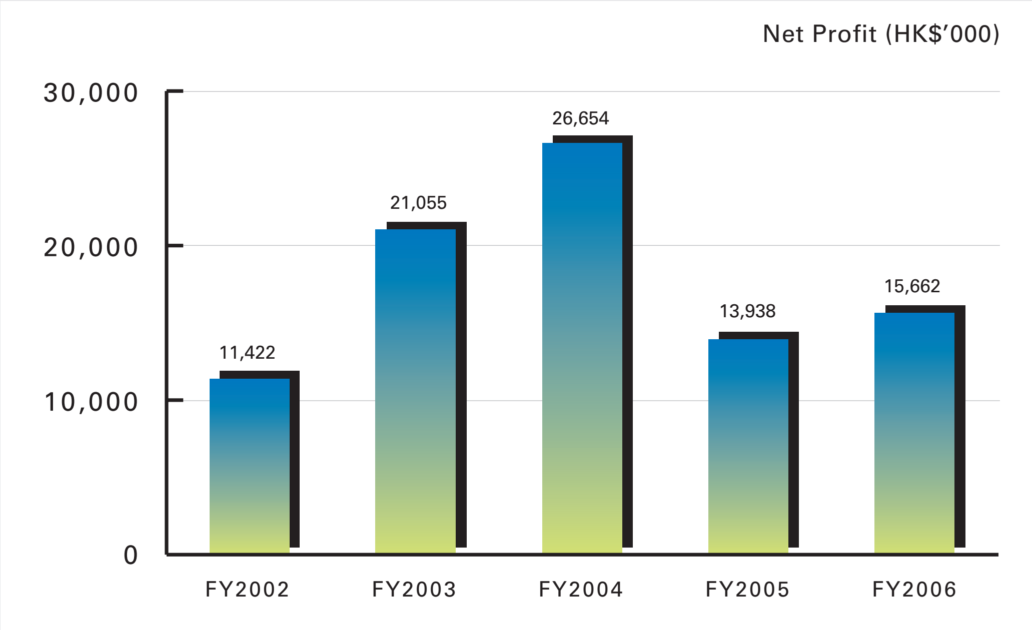
Financial Highlights





FY: Financial year ending March 31

Financial Highlights



FY: Financial year ending March 31

Board of Directors

Mr Lee Wan Lik
Managing Director

Appointed to our Board on May 12, 2004, Mr Lee Wan Lik is responsible for overseeing the Group's overall management and operations, including project management and the provision of consultancy services.

Prior to founding Azeus in 1991, he was a Manager in Oracle Systems (Hong Kong) Limited. In 1990, Mr Lee was a project team leader at the Versant Object Technology Corp. (now Versant Corporation). He was also a researcher at the Microelectronics and Computer Technology Corporation in the United States from 1987 to 1990.

Mr Lee holds a Bachelor of Science in Computer Science and Engineering, and a Bachelor of Science in Mathematics from the Massachusetts Institute of Technology ("MIT"). He also has a Master of Science in Computer Sciences from the University of Texas. Mr Lee is a fellow member of the Hong Kong Institution of Engineers and past Chairman of its IT division. In addition, he is the President of the MIT Club of Hong Kong.

Ms Lam Pui Wan
Executive Director

Ms Lam Pui Wan was appointed to our Board on May 12, 2004. She is the Head of Human Resource and Administration and assists our Managing Director in managing Azeus Hong Kong as well as the Group's offshore development centres, Azeus Philippines and Azeus China.

Prior to joining our Group, Ms Lam was a teaching assistant at the Chinese University of Hong Kong. She holds a Bachelor of Arts from the University of Minnesota.

Mr Yap Wai Ming
Independent Director

Mr Yap Wai Ming was appointed as an Independent Director of Azeus on September 14, 2004. Mr Yap holds an LLB (Honours) from the National University of Singapore and is called to both the Malaysian and Singapore bar. Apart from a short stint as a trade officer with the Singapore Trade Development Board (now IE Singapore), he has been in active legal practice since 1988, initially as a litigation lawyer and subsequently as a corporate lawyer in both Singapore and Malaysia. He is currently a director of the Stamford Law Corporation in Singapore and also a partner in the Malaysian law firm, Tay & Partners. His main area of practice is corporate law. He holds directorships in several private limited companies in Malaysia and Singapore and is also an independent director of China Great Land Holdings Ltd, another Singapore public listed company.

Board of Directors

Mr Michael Yap Kiam Siew

Independent Director

Mr Michael Yap Kiam Siew was appointed as an Independent Director of Azeus on September 14, 2004. He is currently Chairman of Skyvest International Limited.

Prior to his position at Skyvest International Limited, Mr Yap was the Chief Executive Officer of Commerce Exchange Pte Ltd. Before that, he was the Chief Executive Officer of the National Computer Board and has served as a board member of various public organisations. He is also on the board of directors of various companies, including public listed ones in Singapore and Malaysia.

Mr Yap holds a Bachelor of Science and a Master of Science from the University of Maryland, College Park, United States. He has also completed the Stanford Executive Program from Stanford University. Mr Yap was named one of Business Week's 50 Stars of Asia for his significant contributions to the IT industry in Singapore in 1999. He was nominated by the World Economic Forum as one of the Top 100 Future Global Leaders in 2000.

Mr Koji Miura

Independent Director

Mr Koji Miura was appointed as an Independent Director of Azeus on September 14, 2004. He is currently the Founder and Managing Director of Miura & Associates Management Consultants Pte Ltd.

Prior to that, Mr Miura worked as a Japanese Consultant in the Japanese Practice Department of Peat Marwick between 1986 and 1989, where he was responsible for servicing and expanding the Japanese clientele base of the firm. He started his career with Sato Kogyo Co. Ltd, a company listed in Japan.

Mr Miura holds a degree in Business Administration from the University of Aoyama Gakuin, Tokyo, Japan.

Senior Management

Mr Tao Wing Hong

Chief Operating Officer

Mr Tao Wing Hong is responsible for the provision of professional services to our customers, including project management, consultancy study, system implementation and system maintenance.

Mr Tao joined our Group as a Junior Associate in 1991. He was promoted to an Associate in 1994 and Managing Consultant in 2000. Mr Tao holds a Bachelor of Science from the University of Hong Kong.

Ms Peggy Sam

Group Financial Controller

Ms Peggy Sam has been with our Group since March 15, 2004. She is responsible for all financial activities of Azeus.

Between 1994 and 2003, Ms Sam was with PricewaterhouseCoopers, including a two year secondment to PricewaterhouseCoopers, Toronto, Canada. Her last position, prior to joining Azeus, was as Senior Manager of the assurance and business advisory service.

Ms Sam holds a Bachelor of Arts in Accountancy from the City University of Hong Kong. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accoutants.

Senior Management

Ms Mary Rose T. Tan

President of Azeus Philippines

Ms Mary Rose T. Tan joined Azeus Philippines in July 1996. She is in charge of the management of the Group's Philippine operations as well as human resource management. Ms Tan also heads the team that is responsible for conducting quality assurance review of project deliverables.

Between 1991 and 1996, she was with Ayala Systems Technology, Inc where she started as a Senior System Analyst and was later promoted to Project Manager and Senior Manager. She had also worked as an Analyst and Programmer at New York City Parks and Recreation Department and PCI Capital Corporation.

Ms Tan holds a Bachelor of Science in Industrial Management Engineering from De la Salle University, Taft, Manila and a Master of Science in Computer Science from Pace University, New York.

Mr Rene Toling Lindio

Chief Technology Officer

Mr Rene Toling Lindio is responsible for providing strategic direction for the Group on matters related to technology, technical consultation on technical issues and technical project management for various projects. He is also the corporate secretary of Azeus Philippines.

Mr Lindio joined Azeus Philippines as a Junior Associate in April 1994 and was promoted to an Associate in 1996. He holds a Bachelor of Science in Mathematics from the University of the Philippines – Los Banos.

Corporate Information

Board of Directors

Mr Lee Wan Lik
(Managing Director)

Ms Lam Pui Wan
(Executive Director)

Mr Yap Wai Ming
(Independent Director)

Mr Michael Yap Kiam Siew
(Independent Director)

Mr Koji Miura
(Independent Director)

Senior Management

Mr Tao Wing Hong
(Chief Operating Officer)

Ms Peggy Sam
(Group Financial Controller)

Ms Mary Rose T. Tan
(President of Azeus Philippines)

Mr Rene Toling Lindio
(Chief Technology Officer)

Audit Committee

Mr Koji Miura (Chairman)

Mr Yap Wai Ming

Mr Michael Yap Kiam Siew

Remuneration Committee

Mr Michael Yap Kiam Siew
(Chairman)

Mr Lee Wan Lik

Mr Yap Wai Ming

Nominating Committee

Mr Yap Wai Ming (Chairman)

Mr Michael Yap Kiam Siew

Mr Lee Wan Lik

Joint Company Secretaries

Mr Paul Michael Fitzgerald

Mr Lean Min-tze

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda
Tel: 441 295 1443
Fax: 441 295 9216

Principal Office

33/F, Cambridge House,
Taikoo Place,
979 King's Road,
Quarry Bay, Hong Kong

Bermuda Share Registrar and Share Transfer Agent

Reid Management Limited
Argyle House
41a Cedar Avenue Hamilton
HM12
Bermuda

Singapore Share Transfer Agent

Lim Associates (Pte) Ltd 10
Collyer Quay
#19-08 Ocean Building
Singapore 049315

Auditors

PricewaterhouseCoopers
Certified Public Accountants
8 Cross Street
#17-00 PWC Building
Singapore 048424

Ms Tan Khiaw Ngoh
Partner-in-charge since financial year ended March 31, 2005

Principal Bankers

DBS (Hong Kong) Limited
11th Floor, The Center
99 Queen's Road Central
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Central, Hong Kong

Principal Legal Adviser

Stamford Law Corporation
9 Raffles Place
#32-00 Republic Plaza
Singapore 048619

Investor Relations Contact

Citigate Dewe Rogerson
i.MAGE Pte Ltd
1 Raffles Place
#26-02 OUB Centre
Singapore 048616

Corporate Governance Report

The directors and the management of the Company are committed to maintaining a high standard of corporate governance and transparency in order to protect the interests of the shareholders of the Company. Processes and procedures have been instituted and are being constantly reviewed and revised to ensure effective corporate governance.

BOARD MATTERS

Principle 1: Board's Conduct of its affairs

The Board supervises the management of the business and the affairs of the Company and the Group. Apart from its fiduciary duties and statutory responsibilities, it also focuses on formulating the strategic direction and policies, paying particular attention to the growth of the Group and its financial performance. It has delegated the formulation of business policies and day-to-day management to the Executive Directors.

The principal functions of the Board are:

(a) to approve the Group's key business strategies and financial objectives;

(b) to approve the major investments and divestments, and funding proposals;

(c) to oversee the process for evaluating the adequacy of internal controls; risk management, financial reporting and compliance; and

(d) to assume overall responsibility for corporate governance.

The Board intends to hold at least two scheduled meetings each year to review and deliberate on the key activities and business strategies of the Group, including reviewing and approving acquisitions and financial performance, and to endorse the release of the interim and annual results. Ad hoc meetings are held when circumstances require, such as to address significant transactions or issues. The Company's Articles of Association permit a Board meeting to be conducted by way of teleconference and video-conference.

During the financial year ended 31 March 2006, the Board conducted two meetings and the attendance record of each member of the Board is as follows:

Name of Directors	Appointment	Number of meetings held	Attendance
Mr Lee Wan Lik	Executive	2	2
Ms Lam Pui Wan	Executive	2	2
Mr Koji Miura	Independent	2	2
Mr Yap Wai Ming	Independent	2	2
Mr Michael Yap Kiam Siew	Independent	2	2

To assist in the execution of its responsibilities, the Board has established and is supported by a number of Committees, including an Audit Committee, a Nominating Committee and a Remuneration Committee.

Corporate Governance Report

Newly appointed directors are provided with information on their duties and obligations as a director under the Singapore law, and given training on the governance practices and business activities of the Group. The Board is also regularly updated with changes to regulatory and accounting standards in Singapore.

Principle 2: Board Composition and Balance

The Board currently comprises of 5 members, three of whom are independent non-executive directors.

Name of Directors	Appointment
Mr Lee Wan Lik	Executive Director
Ms Lam Pui Wan	Executive Director
Mr Koji Miura	Independent Non-Executive Director
Mr Michael Yap Kiam Siew	Independent Non-Executive Director
Mr Yap Wai Ming	Independent Non-Executive Director

It is to be noted that the chairman and each member of the Nominating Committee had abstained from commenting on and validating his/her own independence.

The Board has examined its size and is of the view that it is an appropriate size for effective decision-making, taking into account the scope and nature of the operations of the Company.

The Nominating Committee is responsible for reviewing the composition of the Board to ensure that the Board has the appropriate mix of expertise and experience, and collectively possess the necessary core competencies for effective functioning and informed decision-making. The Board in consultation with the Nominating Committee has reviewed its composition and is satisfied that such composition ensures that there is adequate representation in respect of potential issues and challenges, without compromising the Board's effectiveness and participation in decision-making. Objectivity on issues deliberated by the Board is assured, given the majority of Non-Executive Directors who are independent of management and are also independent in terms of character and judgment.

Principle 3: Role of Chairman and Chief Executive Officer

The Group's Managing Director is Mr Lee Wan Lik, who is responsible for the day-to-day operations of the Group, as well as monitoring the quality, quantity and timeliness of the flow of information between the Board and the management. Mr Lee is the founder of the Group and has played a key role in developing the Group's business. He is assisted by a group of Executive Directors and Executive officers in carrying out his executive duties and responsibility for the Group's operation and business. Through the Group's success and development in these few years, Mr Lee has demonstrated his vision, strong leadership and enthusiasm in this business.

The Board is of the opinion that the absence of the appointment of a Chairman to their Board does not affect the effective running of the Board.

Principle 4: Board Membership

The Nominating Committee ("NC") comprises Mr Yap Wai Ming as Chairman, Mr Michael Yap Kiam Siew and Mr Lee Wan Lik as members.

The Board has approved the written terms of reference of the NC. The NC is responsible for:

(a) making recommendations to the Board on all board appointments;

(b) the re-nomination of the Directors having regard to the Director's contribution and performance;

(c) determining the independence of each Director on an annual basis; and

(d) deciding whether a Director is able to and has been adequately carrying out his duties as Director.

Subject to the Board's approval, the NC will also decide on how the Board's performance is to be evaluated, and propose objective performance criteria which are dependent on how the Board has enhanced long-term shareholder value. Appointments to the Board are made on merit and against objective performance criteria.

During the financial year ended 31 March 2006, the NC conducted two meetings and the attendance record of each member of the NC is as follows:

Name of Directors	Appointment	Number of meetings held	Attendance
Mr Yap Wai Ming	Independent	2	2
Mr Michael Yap Kiam Siew	Independent	2	2
Mr Lee Wan Lik	Executive	2	2

To help build a culture of performance and stewardship amongst its Board members, the Group ensures that all the Directors step down and offer themselves for re-election at regular intervals of at least once every three years. The Company's Bye-Laws provide that at least one-third of the directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation.

A newly appointed Director will have to submit himself for retirement and election at the AGM immediately following his appointment and thereafter, be subjected to retirement by rotation.

Each member of the NC shall abstain from voting on any resolution with respect to the assessment of his performance for re-nomination as a Director.

The NC recommended to the Board that Mr Yap Wai Ming and Mr Michael Yap Kiam Siew who retired by rotation be nominated for re-election at the forthcoming AGM, after taking into account their contributions and performance.

Corporate Governance Report

Principle 5: Board Performance

The NC will assess the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. The NC is looking into drawing up a set of objective performance criteria for the evaluation and assessment of each Director's performance.

The NC has initiated the assessment of the effectiveness of the Board in this financial year, by requiring the Directors to conduct self-assessments through a questionnaire.

Principle 6: Access to Information

To assist the Board in fulfilling its responsibilities, the management provides the Board with management reports containing complete, adequate and timely information prior to Board meetings and as and when the need arises. Papers containing relevant background or explanatory information required to support the decision-making process are prepared for each Board meeting and are normally circulated in advance of the meeting.

The Board is also provided with updates on the relevant new laws, regulations and changing commercial risks in the Company's operating environment. Orientation to the Company's business strategies and operations is conducted as and when required.

All Directors have separate and independent access to senior management and to the Company Secretaries. The Company Secretaries administer, attend and prepare minutes of the Board meetings, and assist the Chairman in ensuring that the Board procedures are followed and reviewed so that the Board functions effectively. The Company Secretaries also advise the Board on governance matters, and assist the Board on compliance with the Company's Bye-laws and relevant rules and regulations, including requirements of the Listing Manual of the Singapore Exchange Securities Trading Limited (SGX-ST).

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

The Remuneration Committee ("RC") comprises Mr Michael Yap Kiam Siew as Chairman and Mr Yap Wai Ming and Mr Lee Wan Lik as members. During the financial year ended 31 March 2006, the RC conducted two meetings and the attendance record of each member of the RC is as follows:

Name of Directors	Appointment	Number of meetings held	Attendance
Mr Michael Yap Kiam Siew	Independent	2	2
Mr Yap Wai Ming	Independent	2	2
Mr Lee Wan Lik	Executive	2	2

The Board has approved the written terms of reference of the RC. The RC is responsible for:

(a) recommending to the Board a remuneration framework for the Board and key Executive Officers, and determining a specific remuneration package for each Executive Director and the Managing Director (or an executive of equivalent rank). The RC will consider all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options and benefits-in-kind; and

(b) reviewing and administering the Company's compensation schemes such as our employee share option scheme and other remuneration packages of the Company from time to time. As part of its review, the RC shall ensure that all aspects of the various schemes are comparable to other similar companies within the industry.

The key Executive Directors do not receive director's fee. The remuneration for the Executive Directors and the key senior executives comprises a basic salary component and a variable component which is the annual bonus, based upon the performance of the Group as a whole or their individual performance.

Principle 8: Level and Mix of Remuneration

Principle 9: Disclosure on Remuneration

Directors' remuneration

Remuneration band and name of Directors	Salary	Bonus	Director's fees	Incentive and other benefits	Total
<S$250,000					
Lee Wan Lik	98%	–	–	2%	100%
<S$100,000					
Mr Yap Wai Ming	–	–	100%	–	100%
Mr Michael Yap Kiam Siew	–	–	100%	–	100%
Mr Koji Miura	–	–	100%	–	100%
Ms Lam Pui Wan	100%	–	–	–	100%

Remuneration band and name of 5 key executives	Salary	Bonus	Incentive and other benefits	Total
<S$250,000				
Mr Winston Wong Shui Wah	99%	–	1%	100%
Ms Mary Rose T. Tan	100%	–	–	100%
Mr Rene Toling Lindio	100%	–	–	100%
Mr Tao Wing Hong	87%	–	13%	100%
Ms Peggy Sam	93%	–	7%	100%

The remuneration of the Non-Executive Directors and Independent Directors is in the form of a fixed fee. The fees of the Directors will be subject to approval at the AGM.

Corporate Governance Report

Mr Lee Wan Lik entered into a service agreement (the "Service Agreement") with the Company in 2004. The Service Agreement is valid for a term of one year with effect from 3rd September 2004, and thereafter continues from year to year unless terminated in accordance with the provisions of the Service Agreement. The Service Agreement can be terminated by either party giving not less than three months' notice provided that the Company shall have the option to pay three months' salary in lieu of any required period of notice. Except for such payment in lieu of notice as provided for under the Service Agreement, no compensation or damages are payable by our Company to Mr Lee Wan Lik in respect of his termination in accordance with the terms of the Service Agreement.

There are no employees who are immediate family members of a Director whose remuneration exceeded $150,000 in the financial year ended 31 March 2006.

Share option scheme

The Company has a share option scheme known as the Azeus Employee Share Option Scheme (the "Scheme"), which was approved by shareholders of the Company. The Scheme complies with the relevant rules as set out in Chapter 8 of the Listing Manual. The Scheme will provide eligible participants with an opportunity to participate in the equity of the Company, so as to incentivise and motivate them towards better performance through increased dedication and loyalty. The Scheme is administered by the RC. No options have been granted under the Scheme during the current financial period.

ACCOUNTABILITY AND AUDIT

Principle 10: Accountability

The Board is accountable to the shareholders while the management is accountable to the Board.

The Board provides the shareholders with a detailed and balanced explanation and analysis of the Company's performance, position and prospects on a half-yearly basis.

In order to keep the Board informed about the developments in the Company, the management provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a half-yearly basis. The management also provides the Board with timely, accurate and complete information on all matters requiring the Board's decision.

Principle 11: Audit committee ("AC")

The AC comprises three independent non-executive directors, with Mr Koji Miura as Chairman, and Mr Michael Yap Kiam Siew and Mr Yap Wai Ming as members. During the financial year ended 31 March 2006, the AC conducted two meetings and the attendance record of each member of the AC is as follows:

Name of Directors	Appointment	Number of meetings held	Attendance
Mr Koji Miura	Independent	2	2
Mr Michael Yap Kiam Siew	Independent	2	2
Mr Yap Wai Ming	Independent	2	2

The Board had approved the written terms of reference of the AC. The AC will meet periodically to, inter alia:

(i) review the audit plans and reports of our Company's internal and external auditors;

(ii) review the financial statements of our Company before submission to the Directors and shareholders;

(iii) review and evaluate the independence and performance of the external auditors;

(iv) review any major interested person transactions;

(v) review the effectiveness and adequacy of internal accounting and financial control procedures; and

(vi) review the adequacy of the business risk management process.

Apart from the above functions, our AC will also commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, failure of internal controls, or infringement of any law, rule or regulation which has or is likely to have a material impact on our Company's operating results or financial position. Each member of our AC will abstain from voting in respect of matters in which he is interested.

The AC is empowered to investigate any matter relating to the group's accounting, auditing, internal controls and/or financial practices brought to its attention, with full access to records, resources and personnel, so as to enable it to discharge its functions properly.

The AC, having reviewed the volume of non-audit services to the Company by the auditors, is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the auditors.

The AC has accordingly recommended to the Board that the auditors, PricewaterhouseCoopers, be nominated for re-appointment as auditors at the forthcoming Annual General Meeting of the Company.

Principle 12: Internal Controls

Principle 13: Internal Audit

The Board is cognisant of its responsibility for maintaining a sound system of internal controls to safeguard shareholders' investment and the Group's assets and business. The Company' s auditors, PricewaterhouseCoopers carry out, in the course of their statutory audit, a review of the effectiveness of the Company's material internal controls annually to the extent of the scope laid out in their audit plan. Material non-compliance and internal control weaknesses noted during their audit and the auditors' recommendations, are reported to the AC members.

For the financial year ended 31 March 2006, the Board is of the view that based on the reports from the auditors, the system of internal controls that has been maintained by the Company' s management throughout the financial year is adequate to meet the needs of the Company. The Board shall consider expanding its internal audit resources as and when the need arises.

Corporate Governance Report

COMMUNICATION WITH SHAREHOLDERS

Principle 14: Communication with Shareholders

Principle 15: Greater shareholders participation

The Company engages in regular, effective and fair communication with shareholders. The Board strives for timeliness and transparency in its disclosure to shareholders and the public. Regular meetings are held with investors, analysts, fund managers and the press. The Group also has a corporate web-site (www.azeus.com) where shareholders and members of the public are able to access up-to-date corporate information and new events related to the Group.

The Annual General Meeting of the Company also represents the principal forum for dialogue and interaction with all shareholders. At each Annual General Meeting, the Board invites and allocates sufficient time for shareholders to participate in the question-and-answer session.

Code of Business Conduct

The Directors, officers and employees are required to observe and maintain high standards of integrity, as are in compliance with laws and regulations and the Company's policies.

Dealings in Securities

The Directors of the Company have adopted a Code of Best Practices on Securities Transactions by Officers to govern the dealings in securities by the directors and officers of the group, which is modelled on the Best Practices Guide introduced by the SGX-ST.

In line with the Best Practices Guide introduced by the SGX-ST, the Company issues circulars to its directors, officers and employees in emphasising that they must not deal in the listed securities of the Group for the period of one month before the release of the half-yearly and full-year financial results, if they are in possession of any unpublished material price-sensitive information. All directors, officers and managers are also required to file with the Company regular reports on all their dealings in the listed securities of the Group during the financial year.

Directors' Report

The directors present their report to the members together with the audited financial statements of the Group for the financial year ended 31 March 2006 and the balance sheet of the Company as at 31 March 2006.

DIRECTORS

The directors of the Company in office at the date of this report are:

Mr Lee Wan Lik
Ms Lam Pui Wan
Mr Koji Miura
Mr Michael Yap Kiam Siew
Mr Yap Wai Ming

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN SHARES OR DEBENTURES

(a) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had any interest in the share capital or debentures of the Company or related corporations, except as follows:

	Holdings registered in name of director or nominee		**Holdings in which director is deemed to have an interest**	
	At 31.3.2006 US$0.02 each	**At 1.4.2005 US$0.02 each**	**At 31.3.2006 US$0.02 each**	**At 1.4.2005 US$0.02 each**
The Company				
Mr Lee Wan Lik	82,431,555	83,347,000	153,000,000[(1)]	153,000,000[(1)]
Ms Lam Pui Wan	14,000,000	14,000,000	153,000,000[(1)]	153,000,000[(1)]

(1) Ms Lam Pui Wan is the spouse of Mr Lee Wan Lik. Hence, both Ms Lam Pui Wan and Mr Lee Wan Lik are deemed to be interested in the shareholdings held by each other. Mr Lee Wan Lik and Ms Lam Pui Wan are also each deemed to be interested in the shares held by Mu Xia Ltd by virtue of them holding 80% and 20% respectively in Mu Xia Ltd.

Directors' Report

(b) According to the register of directors' shareholdings, none of the directors holding office at the end of the financial year had interests in the options to subscribe for ordinary shares of the Company granted pursuant to the Azeus Employee Share Option Scheme.

(c) The interests of the directors of the Company in the share capital of the Company at 21 April 2006 remained unchanged from those at 31 March 2006.

DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member or with a company in which the director has a substantial financial interest.

SHARE OPTIONS

(a) *Azeus Employee Share Option Scheme*

On 14 September 2004, the shareholders at a Special General Meeting approved an employee share option scheme known as the "Azeus Employee Share Option Scheme" (the "Scheme") to grant share options to eligible employees, including Executive and Non-executive Directors of the Company and its subsidiaries. However, qualified persons who are also the Company's controlling shareholders or their associates may not participate in the Scheme. The options grant the right to the holder to subscribe for new ordinary shares of the Company at a discount to the market price of the share (subject to a maximum limit of 20%) or at a price equal to the average of the last dealt prices of the shares on the Singapore Exchange Securities Trading Limited ("SGX-ST") for the three consecutive Market Days immediately preceding the date of the grant of the option.

The Scheme is administered by the Remuneration Committee which comprises the following three directors:

1. Mr Michael Yap Kiam Siew *(Chairman)*
2. Mr Lee Wan Lik
3. Mr Yap Wai Ming

The committee has been authorised to determine the terms and conditions of the grant of the options.

During the financial year, no option was granted to controlling shareholders, key management or employee of the Company and its subsidiaries or their associates.

Directors' Report

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to accept re–appointment.

On behalf of the directors

LEE WAN LIK	LAM PUI WAN
Director	*Director*

15 June 2006

Statement by Directors

In the opinion of the directors,

(a) the balance sheet of the Company and the consolidated financial statements of the Group as set out on pages 26 to 61 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group at 31 March 2006 and of the results of the business, changes in equity and cash flows of the Group for the financial year then ended; and

(b) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the directors

LEE WAN LIK
Director

LAM PUI WAN
Director

15 June 2006

Auditors' Report to the Members of Azeus Systems Holdings Ltd.

We have audited the accompanying financial statements of Azeus Systems Holdings Ltd. set out on pages 26 to 61 for the financial year ended 31 March 2006, comprising the balance sheet of the Company and the consolidated financial statements of the Group. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Singapore Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying balance sheet of the Company and the consolidated financial statements of the Group are properly drawn up in accordance with the Singapore Financial Reporting Standards and present fairly, in all material aspects, the state of affairs of the Company and of the Group as at 31 March 2006, and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

PricewaterhouseCoopers
Certified Public Accountants

Singapore, 15 June 2006

Consolidated Income Statement

	Notes	**2006**	2005
		HK$'000	HK$'000
Sales	5	**85,959**	60,542
Cost of sales		**(43,863)**	(34,679)
Gross profit		**42,096**	25,863
Other gains	5	**2,051**	3,550
Expenses			
- Selling and marketing		**(7,506)**	(3,642)
- Administrative and other operating		**(16,788)**	(9,116)
Profit before tax		**19,853**	16,655
Income tax expense	8	**(4,191)**	(2,717)
Profit after tax		**15,662**	13,938
Earnings per share (HK cents)			
- Basic	9	**5.22**	5.40
- Diluted	9	**5.22**	5.40

The accompanying notes form an integral part of these financial statements. *Auditors' Report – Page 25.*

Balance Sheets

	Notes	The Group 2006 HK$'000	The Group 2005 HK$'000	The Company 2006 HK$'000	The Company 2005 HK$'000
ASSETS					
Current assets					
Cash and cash equivalents	10	**59,822**	83,578	**5,405**	73,725
Pledged bank deposits		**–**	1,500	**–**	**–**
Trade and other receivables	11	**8,174**	2,689	**74,826**	5,206
Unbilled revenue on service contracts	13	**55,625**	24,570	**–**	–
Inventories	14	**3,146**	3,306	**–**	–
Current income tax asset	8	**–**	1,563	**–**	–
Available-for-sale financial assets	15	**–**	4,246	**–**	–
		126,767	121,452	**80,231**	78,931
Non-current assets					
Available-for-sale financial assets	15	**4,151**	–	**–**	–
Investments in subsidiaries	16	**–**	–	**40,571**	39,183
Property, plant and equipment	17	**1,402**	1,492	**–**	–
Intangible asset	18	**–**	939	**–**	–
Deferred income tax assets	21	**212**	96	**–**	–
		5,765	2,527	**40,571**	39,183
Total assets		**132,532**	123,979	**120,802**	118,114
LIABILITIES					
Current liabilities					
Trade and other payables	19	**11,310**	6,395	**625**	668
Current income tax liabilities	8	**1,478**	–	**–**	–
		12,788	6,395	**625**	668
Non-current liabilities					
Provision for retirement benefit	20	**34**	–	**–**	–
Deferred income tax liabilities	21	**130**	130	**–**	–
		164	130	**–**	–
Total liabilities		**12,952**	6,525	**625**	668
Net assets		**119,580**	117,454	**120,177**	117,446
SHAREHOLDERS' EQUITY					
Share capital	22	**46,800**	46,800	**46,800**	46,800
Share premium		**56,489**	56,489	**56,726**	56,726
Foreign currency translation reserve		**41**	(7)	**–**	–
Statutory reserve		**–**	112	**–**	–
Other reserves	23	**(69)**	–	**–**	–
Retained earnings	24	**16,319**	14,060	**16,651**	13,920
		119,580	117,454	**120,177**	117,446

The accompanying notes form an integral part of these financial statements. Auditors' Report – Page 25.

Consolidated Statements of Changes in Equity

	Notes	Share Capital HK$'000	Share Premium HK$'000	Foreign Currency Translation Reserve HK$'000	Statutory Reserve HK$'000	Other Reserves HK$'000	Retained Profits HK$'000	Total HK$'000
Group								
Balance as at 1 April 2005								
As previously reported		46,800	56,489	(7)	112	–	14,060	117,454
Effect of changes in accounting policies								
– Adjusted prospectively		–	–	–	–	(439)	240	(199)
As restated		**46,800**	**56,489**	**(7)**	**112**	**(439)**	**14,300**	**117,255**
Currency translation difference		–	–	48	–	–	–	48
Transfer from other reserve to retained earnings		–	–	–	(112)	–	112	–
Fair value loss on available-for-sale financial assets	23	–	–	–	–	(95)	–	(95)
Net gains/(losses) recognised directly in equity		**–**	**–**	**48**	**(112)**	**(95)**	**112**	**(47)**
Profit for the financial year		–	–	–	–	–	15,662	15,662
Total recognised gains/(losses)		**–**	**–**	**48**	**(112)**	**(95)**	**15,774**	**15,615**
Employee share-based payment costs	23	–	–	–	–	465	–	465
Dividend paid	25	–	–	–	–	–	(13,755)	(13,755)
Balance as at 31 March 2006		**46,800**	**56,489**	**41**	**–**	**(69)**	**16,319**	**119,580**

The accompanying notes form an integral part of these financial statements. Auditors' Report – Page 25.

Consolidated Statements of Changes in Equity

	Share Capital HK$'000	Share Premium HK$'000	Foreign Currency Translation Reserve HK$'000	Statutory Reserve HK$'000	Retained Profits HK$'000	Merger Reserve HK$'000	Total HK$'000
Group							
Balance as at 1 April 2004[(a)]	142	–	3	112	34,986	–	35,243
Currency translation difference	–	–	(10)	–	–	–	(10)
Net profit for the financial year	–	–	–	–	13,938	–	13,938
Total recognised gains/(losses) for the financial year	**–**	**–**	**(10)**	**–**	**13,938**	**–**	**13,928**
Issue of shares	94	–	–	–	–	–	94
Issue of shares pursuant to restructuring exercise in exchange for shares of the subsidiaries	35,006	–	–	–	–	–	35,006
Adjustments arising from restructuring exercise[(b)]	(142)	–	–	–	–	(34,864)	(35,006)
Transfer from retained earnings to merger reserve	–	–	–	–	(34,864)	34,864	–
Issue of shares pursuant to the initial public offering	11,700	65,066	–	–	–	–	76,766
Share issue expenses[(c)]	–	(8,577)	–	–	–	–	(8,577)
Balance as at 31 March 2005	**46,800**	**56,489**	**(7)**	**112**	**14,060**	**–**	**117,454**

(a) These balances represent the share capital, foreign currency translation reserve, statutory reserve and retained profits of the subsidiaries prior to the restructuring exercise.

(b) The adjustments arising from the restructuring exercise represent the excess of the nominal value of the shares issued by the Company over the nominal value of the shares acquired in exchange for those shares, accounted for using the pooling–of–interest method.

(c) Included in share issue expenses are non–audit fees paid to auditors of the Company of approximately HK$853,000 and approximately HK$847,000 to other auditors for services provided in relation to the initial public offering.

The accompanying notes form an integral part of these financial statements. Auditors' Report – Page 25.

Consolidated Cash Flow Statement

	Note	**2006**	2005
		HK$'000	HK$'000
Cash flows from operating activities			
Profit before tax		**19,853**	16,655
Adjustments for:			
Depreciation of property, plant and equipment		**878**	932
Impairment loss on goodwill		**939**	–
Interest income		**(1,602)**	(425)
Dividend income		**(171)**	(154)
Amortisation of goodwill		**–**	41
Employee share-based compensation costs		**465**	–
Retirement benefit plan costs		**64**	–
Unrealised loss on available-for-sale financial assets		**–**	396
Translation differences		**(23)**	(10)
Operating cash flow before working capital changes		**20,403**	17,435
Changes in operating assets and liabilities			
Trade and other receivables		**(5,485)**	22,201
Unbilled revenue on service contracts		**(31,055)**	(17,191)
Inventories		**160**	(3,306)
Trade payables and other payables		**4,545**	(2,556)
Cash (used in)/generated from operations		**(11,432)**	16,583
Income tax paid		**(1,135)**	(6,823)
Provision for retirement benefit		**34**	–
Net cash (used in)/generated from operating activities		**(12,533)**	9,760
Cash flows from investing activities			
Purchase of property, plant and equipment		**(741)**	(785)
Decrease/(increase) in pledged bank deposits		**1,500**	(1,300)
Interest received		**1,602**	425
Dividend received		**171**	154
Purchase of other investments		**–**	(2,610)
Acquisition of a subsidiary, net of cash acquired		**–**	(1,137)
Net cash generated from/(used in) investing activities		**2,532**	(5,253)
Cash flows from financing activities			
Net proceeds from issue of shares		**–**	68,283
Dividends paid to shareholders		**(13,755)**	–
Net cash (used in)/generated from financing activities		**(13,755)**	68,283
Net (decrease)/increase in cash and cash equivalents held		**(23,756)**	72,790
Cash and cash equivalents at the beginning of the financial year	10	**83,578**	10,788
Cash and cash equivalents at the end of the financial year	10	**59,822**	83,578

The accompanying notes form an integral part of these financial statements. Auditors' Report – Page 25.

Notes to the Financial Statements

These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

1. GENERAL

Azeus Systems Holdings Ltd. (the "Company") was incorporated as an exempt company with limited liability under the Companies Act 1981 of Bermuda with registered office at Canon's Court, 22 Victoria Street, Hamilton HM1, Bermuda. The principal place of business of the Company is at 33rd Floor, Cambridge House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are set out in Note 16.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements have been prepared in accordance with Singapore Financial Reporting Standards ("FRS"). The financial statements, which are expressed in Hong Kong dollars, have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with FRS requires management to exercise its judgement in the process of applying the Group's accounting policies. It also requires the use of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement or complexity, are disclosed in Note 4.

For the financial year ended 31 March 2006, the Company adopted the new and revised FRSs and Interpretations of FRS ("INT FRS") that are applicable in the current financial year. The financial statements for the financial year ended 31 March 2005 have been amended as required, in accordance with the relevant transitional provisions in the respective FRS and INT FRS. The following are the FRS and INT FRS that are relevant to the Group:

FRS 1 (revised) Presentation of Financial Statements

FRS 2 (revised) Inventories

FRS 8 (revised) Accounting Policies, Changes in Accounting Estimates and Errors

FRS 10 (revised) Events After the Balance Sheet Date

FRS 16 (revised) Property, Plant and Equipment

FRS 17 (revised) Leases

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

FRS 21 (revised) The Effects of Changes in Foreign Exchange Rates

FRS 24 (revised) Related Party Disclosures

FRS 27 (revised) Consolidated and Separate Financial Statements

FRS 32 (revised) Financial Instruments: Disclosure and Presentation

FRS 33 (revised) Earnings per Share

FRS 36 (revised) Impairment of Assets

FRS 38 (revised) Intangible Assets

FRS 39 (revised) Financial Instruments: Recognition and Measurements

FRS 102 Share-Based Payments

FRS 103 Business Combinations

INT FRS 101 Changes in Existing Decommissioning, Restoration and Similar Liabilities

The adoption of the above FRS and INT FRS did not result in substantial changes to the Company's accounting policies except as disclosed in Note 3.

2.2 Revenue recognition

Revenue of the Group comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services, net of goods and services tax, rebates and discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Service contracts

A service contract is a contract specifically negotiated for the provision of IT services, including sales of hardware and software products as required under the relevant contract terms.

Contract revenue for the provision of IT services is recognised by using the stage of completion method. The stage of completion is measured by reference to the percentage of actual time costs incurred to date to estimated total time costs.

Contract costs are recognised when incurred. When it is probable that total contract cost will exceed total contract revenue, the expected loss is recognised as an expense immediately. Some of the costs incurred during the year in connection with future activity on a contract are excluded from costs incurred to date when determining the stage of completion of a contract and are presented as inventories or prepayments depending on their nature.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Revenue recognition (continued)

(a) Service contracts (continued)

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as unbilled revenue on service contracts within "trade and other receivables" in the balance sheet. Where progress billings exceeds costs incurred plus recognised profits (less recognised losses), the balance is shown as amount due to customers on service contracts.

Contract revenue for sales of hardware and software products are recognised when a product has been delivered to and accepted by the customer and the collectibility of related revenue is reasonably assured.

(b) Maintenance fees

Maintenance fees are recognised pro-rata over the period of maintenance. Fees relating to future periods are treated as advances from customers within "trade and other payables" in the balance sheet.

(c) Support services fees and business process outsourcing fees

Support service fees and business process outsourcing fees are recognised when the services are rendered.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.3 Group accounting

Subsidiaries

Subsidiaries are entities over which the Group has power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Group accounting (continued)

Subsidiaries (continued)

The purchase method of accounting is used to account for the acquisition of a subsidiary during the financial year. The cost of an acquisition is measured as the fair value of the assets given up, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of any minority interest. The excess cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. Please refer to Note 2.5 for the accounting policy on goodwill on acquisitions of subsidiaries.

Subsidiaries are consolidated from the date on which control is transferred to the Group to the date on which that control ceases. In preparing the consolidated financial statements, intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

2.4 Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses (Note 2.19).

Depreciation is calculated on a straight line method to allocate their estimated useful lives. The estimated useful lives are as follows:

	Useful lives
Leasehold improvements and furniture and fixtures	3 – 5 years
Office equipment	2 – 5 years
Computer equipment	3 years

The residual values and useful lives of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

On disposal of an item of property, plant and equipment, the difference between the net disposal proceeds and its carrying amount is taken to the income statement. Any amount in revaluation reserve relating to that asset is transferred to retained earnings.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries over the fair value of the Group's share of their identifiable net assets at the date of acquisition.

Goodwill for acquisition post 1 April 2005 is determined after deducting the Group's share of their identifiable net assets and contingent liabilities.

From 1 April 2005, goodwill recognised as intangible assets is tested at least annually for impairment and carried at cost less accumulated impairment losses (Note 2.19). Please refer to 3.1 for accounting of goodwill prior to 1 April 2005.

2.6 Investments in financial assets

(a) Classification

The Group classifies its investments in financial assets in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets. Loans and receivables are included in trade and other receivables on the balance sheet (Note 2.8).

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives financial instruments that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the assets within 12 months after the balance sheet date.

(b) Initial measurement

Available-for-sale financial assets are initially recognised at fair value plus transaction costs.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Investments in financial assets (continued)

(c) Subsequent measurement

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in the fair value reserve within equity. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the fair value reserve within equity are included in the income statement.

(d) Determination of fair value

The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

(e) Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from the fair value reserve within equity and recognised in the income statement. Impairment losses recognised in the income statement on equity investments are not reversed through the income statement, until the equity investments are disposed of.

2.7 Inventories

Inventories comprise hardware and software products to be used in IT projects under the relevant contract terms and are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the income statement.

2.9 Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost, where applicable, using the effective interest rate method.

2.10 Provisions for other liabilities and charges

Provisions are recognised when the Group has a present legal and constructive obligation as a result of past events, and it is more likely than not that the Group will be required to settle the obligation.

2.11 Operating leases

Leases of assets where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.12 Deferred income taxes

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

(b) Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into separate entities such as the mandatory provident fund scheme in Hong Kong, and will have no legal or constructive obligation to pay further contributions if any of the funds does not hold sufficient assets to pay all employee benefits relating to employee service in the current and preceding financial years. The Group's contribution to defined contribution plans are recognised in the financial year to which they relate.

(c) Defined benefit plans

The Group has a pension plan for its subsidiary in accordance with the local conditions and practices in the Philippines. The plan is generally funded through payments to trustee-administered funds as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The liability or asset (as appropriate) recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date with adjustment for unrecognised actuarial gains or losses and past service costs as computed by independent actuaries. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to income over the employees' expected average remaining working lives.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Employee benefits (continued)

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the shares from the majority shareholder is recognised as an expense in the income statement with a corresponding increase in the reserve on the date of grant.

(e) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.14 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements of the Group and the Company are presented in Hong Kong Dollars, which is the Company’s functional currency.

(b) Transactions and balances

Transactions in a currency other than the functional currency (“foreign currency”) are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Currency translation differences on non-monetary items, such as equity investments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Currency translation differences on non-monetary items, such as equity investment classified as available-for-sale financial assets, are included in the fair value reserve within equity.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Foreign currency translation (continued)

(c) Translation of Group entities' financial statements

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;

(ii) Income and expenses for each income statements are translated at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated using the exchange rates at the dates of the transactions); and

(iii) All resulting exchange differences are taken to the foreign currency translation reserve within equity

Goodwill and fair value adjustments arising on the acquisition of a foreign entity on or after 1 April 2005 are treated as assets and liabilities of the foreign entity and translated at the closing rate. For acquisitions prior to 1 April 2005, the exchange rates at the dates of acquisition were used.

2.15 Cash and cash equivalents

Cash and cash equivalents are stated in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and on hand and short-term bank deposits.

2.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of shares, are taken to equity as deduction, net of tax from the proceeds.

2.17 Dividends

Interim dividends are recorded in the financial year in which they are declared payable. Final dividends are recorded in the financial year in which the dividends are approved by the shareholders.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Fair value estimation

The fair value of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying amount of current receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

2.19 Impairment of assets

(a) Goodwill

Goodwill is tested annually for impairment, as well as when there is any indication that the goodwill may be impaired.

For the purpose of impairment testing of goodwill, goodwill is allocated to each of the Group's cash-generating-units (CGU) expected to benefit from synergies of the business combination.

An impairment loss is recognised in the income statement when the carrying amount of the CGU, including the goodwill, exceeds the recoverable amount of the CGU. Recoverable amount of the CGU is the higher of the CGU's fair value less cost to sell and value in use.

The total impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro-rata on the basis of the carrying amount of each asset in the CGU.

Impairment loss on goodwill is not reversed in a subsequent period.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Impairment of assets

(b) *Intangible assets*
Property, plant and equipment
Investments in subsidiaries

Intangible assets, property, plant and equipment and investments in subsidiaries are reviewed for impairment whenever there is any indication that these assets may be impaired. If any such indication exists, the recoverable amount (i.e. the higher of the fair value less cost to sell and value in use) of the asset is estimated to determine the amount of impairment loss.

For the purpose of impairment testing of these assets, recoverable amount is determined on an individual asset basis unless the asset does not generate cash flows that are largely independent of those from other assets. If this is the case, recoverable amount is determined for the CGU to which the asset belongs to.

If the recoverable amount of the asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. The impairment loss is recognised in the income statement unless the asset is carried at revalued amount, in which case, such impairment loss is treated as a revaluation decrease.

3. EFFECTS ON FINANCIAL STATEMENTS ON ADOPTION OF NEW OR REVISED FRS

The effects on adoption of the following FRS in the financial year ended 31 March 2006 are set out below:

3.1 FRS103 *Business Combinations*, FRS 36 *Impairment of Assets* and FRS 38 *Intangible Assets*

Goodwill

Until 31 March 2005, goodwill was amortised on a straight line basis over a period of 3 years and at each balance sheet date, the Group assessed if there was any indication of impairment of the cash-generating-unit to which the goodwill is attached. In accordance with FRS 103, the Group ceased amortisation of goodwill from 1 April 2005 and the accumulated amortisation as at 31 March 2005 amounting to HK$41,000 has been eliminated with a corresponding decrease in the cost of goodwill (Note 18). Goodwill is thereafter tested at least annually for impairment (Note 2.19) in accordance with FRS 36 (revised 2004).

The effects on the balance sheet as at 31 March 2006 and income statement for the year ended 31 March 2006 are set out in Notes 3.4(a) and 3.4(b) respectively.

3. EFFECTS ON FINANCIAL STATEMENTS ON ADOPTION OF NEW OR REVISED FRS (continued)

3.2 FRS 39 (revised 2004) *Financial Instruments: Recognition and Measurement* and FRS 32 (revised 2004) *Financial Instruments: Disclosure and Presentation*

Classification and consequential accounting for financial assets.

Under FRS 39 (revised 2004), the investments in equity interests of other investments are classified as "available-for-sale financial assets" and are initially recognised at fair value and subsequently measured at fair values at the balance sheet date with all gains and losses other than impairment loss taken to equity. Impairment losses are taken to the income statement in the period it arises. On disposal, gains and losses previously taken to equity are included in the income statement.

This change in classification was effected prospectively from 1 April 2005 and consequently affected the following previously reported balance sheet items as at 31 March 2005:

	Group HK$'000
Increase/(decrease) in:	
Fair value reserve (Note 23)	(439)
Retained earnings	439

3.3 FRS 102 *Share-based Payments*

During the current financial year, the controlling shareholder of the Company granted shares to certain employees of the Group as a reward for their past contribution.

On adoption of FRS 102, an expense is recognised when the Group obtained services in exchange for shares. This change has resulted in an expense recognised in the income statement for the employee share-based payment costs with a corresponding increase in other reserves.

The effects on the balance sheet as at 31 March 2006 and income statement for the year ended 31 March 2006 are set out in Notes 3.4(a) and 3.4(b) respectively.

Notes to the Financial Statements

3. EFFECTS ON FINANCIAL STATEMENTS ON ADOPTION OF NEW OR REVISED FRS (continued)

3.4 Summary of effects on adoption of new or revised FRS on:

(a) Consolidated Balance Sheet as at 31 March 2006

	Increase/(Decrease) HK$'000			
Description of change	**FRS 36 (revised 2004) Note 3.1**	**FRS 39 (revised 2004) Note 3.2**	**FRS 102 Note 3.3**	**Total**
Intangible asset (Note 18)	(939)	–	–	**(939)**
Fair value reserve (Note 23)	–	(534)	–	**(534)**
Employee share-based payment reserve (Note 23)	–	–	465	**465**
Retained earnings	(939)	534	(465)	**(870)**

(b) Consolidated income statement for the year ended 31 March 2006

	Increase HK$'000		
Description of change	**FRS 36 (revised 2004) Note 3.1**	**FRS 102 Note 3.3**	**Total**
Impairment charge on goodwill (Note 18)	939	–	**939**
Employee share-based payment costs (Note 7)	–	465	**465**

(c) The adoption of the new and revised FRS and INT FRS have no effects on the balance sheet of the Company as at 31 March 2006.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Notes to the Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

4.1 Revenue recognition

The Group recognises contract revenue for provision of IT services based on the stage of completion method. The stage of completion is measured by reference to the contract costs incurred to date to the estimated total costs for the contract.

Significant judgement is required in determining the estimated total contract costs. In making the judgement, the Group evaluates by relying on past experience and the work of specialists. If the estimated stage of completion differs by 5% from management's estimates, the Group's revenue will be reduced/increased by approximately HK$5.0 million.

4.2 Provision for retirement benefit

The determination of the obligation and cost for pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20 and include, among others, discount rate, expected rate of return on plan assets and rate of compensation increase. In accordance with FRS 19, actual results that differ from the Group's assumptions are accumulated and amortised over future periods and therefore, generally affect the recognised expense and recorded obligation in such future periods. Any changes in these assumptions are not likely to have a significant impact on the Group's results.

4.3 Provision for impairment in value of subsidiary

The Company follows guidance of FRS 36 (revised 2004) in determining whether it is necessary to recognise any additional impairment loss with respect to the Company's net investment in the subsidiary. This determination requires significant judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near-term business outlook for the investee.

Notes to the Financial Statements

5. REVENUE

	The Group	
	2006	2005
	HK$'000	HK$'000
IT services, including sales of hardware and software	**70,304**	46,165
Maintenance and support services	**10,240**	9,874
Business process outsourcing	**5,415**	4,503
Total sales	**85,959**	60,542
Interest income	**1,602**	425
Dividend income	**171**	154
Net foreign exchange gain	**278**	2,112
Other income	**–**	859
Other gains	**2,051**	3,550
	88,010	64,092

6. EXPENSES BY NATURE

Expenses included cost of sales, selling and marketing expenses and administrative and other operating expenses are analysed as follow:

	The Group	
	2006	2005
	HK$'000	HK$'000
Hardware and software	**7,637**	5,371
Depreciation of property, plant and equipment	**878**	932
Auditors' remuneration paid/payable to:		
– auditors to the Company	**300**	305
– other auditors*	**264**	264
Non-audit fees – other auditors*	**20**	19
Employee benefits expenses	**44,361**	31,578
Rental expense – operating lease	**2,518**	2,088
Unrealised loss on available-for-sale financial assets	**–**	396
Amortisation of goodwill	**–**	41
Impairment loss on goodwill	**939**	–
Changes in inventories	**160**	(3,306)
Legal and professional fees	**1,013**	673
Repairs and maintenance	**1,241**	680
Other expenses	**8,826**	8,396
Total cost of sales, selling and marketing and administrative expenses	**68,157**	47,437

* Includes other members of the worldwide PricewaterhouseCoopers organisation.

7. EMPLOYEE BENEFITS

	The Group	
	2006	2005
	HK$'000	HK$'000
Wages and salaries	**41,134**	30,426
Employer's contribution to defined contribution plans	**2,668**	1,852
Provision for unutilised annual leave	**30**	–
Employee share-based payment costs (Note 23)	**465**	–
Retirement benefit cost	**64**	–
Write-back for long service payment	**–**	(700)
	44,361	31,578

Key management personnel compensation is disclosed in Note 28(a).

8. INCOME TAXES

(a) Income tax expense

	The Group	
	2006	2005
	HK$'000	HK$'000
Tax expense attributable to profit is made up of:		
Current income tax – foreign	**4,233**	2,771
Deferred income tax	**(14)**	–
	4,219	2,771
Over provision in preceding financial years		
– current income tax	**(28)**	(54)
	4,191	2,717

Notes to the Financial Statements

8. INCOME TAXES (continued)

(a) Income tax expense (continued)

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit/losses of the consolidated companies are as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax	**19,853**	16,655
Tax calculated at domestic tax rates applicable to profits in the respective countries	**3,906**	2,501
Effects of change in tax rates	**(8)**	–
Income not subject to tax	**(172)**	(2)
Expenses not deductible for tax	**40**	–
Temporary differences not recognised	**421**	265
Other	**32**	7
	4,219	2,771

The weighted average applicable tax rate was 19.7% (2005: 15%). The increase is caused by temporary differences not recognised in certain tax jurisdiction.

(b) Movements in current income tax liabilities/(assets)

	The Group	
	2006	**2005**
	HK$'000	**HK$'000**
At beginning of financial year	**(1,563)**	2,543
Currency translation differences	**(29)**	–
Income tax paid	**(1,135)**	(6,823)
Tax expense on profit for the financial year	**4,233**	2,771
Over provision in preceding financial years	**(28)**	(54)
At end of financial year	**1,478**	(1,563)

Notes to the Financial Statements

9. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to members of Azeus Systems Holdings Ltd. by the weighted average number of ordinary shares during the financial year.

	The Group	
	2006	**2005**
	HK$'000	**HK$'000**
Net profit attributable to members of the Company	**15,662**	13,938

The weighted average number of ordinary shares is arrived at as follows:

	The Group	
	2006	**2005**
Weighted average number of ordinary shares used in the computation of earnings per share	**300,000,000**	258,287,671
Basic earnings per share (HK cents)	**5.22**	5.40
Diluted earnings per share (HK cents)	**5.22**	5.40

Diluted earnings per share is the same as basic earnings per share as there are no dilutive potential ordinary shares at 31 March 2006.

10. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and on hand	**15,295**	10,715	**5,405**	862
Short-term bank deposits	**44,527**	72,863	**–**	72,863
	59,822	83,578	**5,405**	73,725

The carrying amounts of cash and cash equivalents approximate their fair values.

Notes to the Financial Statements

10. CASH AND CASH EQUIVALENTS (continued)

Cash and cash equivalents are denominated in the following currencies:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollar	**15,375**	3,967	**124**	–
United States Dollar	**39,035**	70,468	**4,384**	67,300
Singapore Dollar	**3,610**	7,948	**897**	6,425
Others	**1,802**	1,195	**–**	–
	59,822	83,578	**5,405**	73,725

Short-term bank deposits at the balance sheet date have an average maturity of 23 days (2005: 24 days) and the weighted average effective interest rates are as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	%	%	**%**	%
Hong Kong Dollar	**3.7%**	–	**–**	–
Singapore Dollar	**1.5%**	1.6%	**–**	1.6%
United States Dollar	**4.3%**	2.6%	**–**	2.6%

11. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**4,895**	1,197	**–**	–
Amount due from a shareholder – non-trade	**–**	29	**–**	29
Amount due from subsidiaries – non-trade (Note 12)	**–**	–	**74,826**	5,151
Other receivables, prepayments and deposits	**3,279**	1,463	**–**	26
	8,174	2,689	**74,826**	5,206

Trade and other receivables are mainly denominated in Hong Kong dollars. The Group has policies in place to ensure that the terms of the contract are agreed with the customers to minimise disputes on the amounts billed.

The carrying amounts of trade and other receivables approximate their fair values.

12. AMOUNTS DUE FROM/TO SUBSIDIARIES

The non-trade amounts due from/to subsidiaries are unsecured, interest-free and are repayable on demand.

13. UNBILLED REVENUE ON SERVICE CONTRACTS

	The Group	
	2006	2005
	HK$'000	HK$'000
Aggregate contract costs incurred and recognised profits (less recognised losses) to date	**86,146**	41,033
Less: Progress billings	**(30,521)**	(16,463)
	55,625	24,570

14. INVENTORIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Hardware and software	**3,146**	3,306

The cost of inventories used for IT services recognised as expense and included in cost of sales amounted to HK$7,797,000 (2005: HK$2,065,000).

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2006	2005
	HK$'000	HK$'000
At beginning of financial year	**4,246**	2,032
Additions	**–**	2,610
Fair value losses charged to income statement	**–**	(396)
Fair value losses transferred to fair value reserve (Note 23)	**(95)**	–
At end of financial year	**4,151**	4,246
Less: Non-current portion	**(4,151)**	–
Current portion	**–**	4,246

In preceding financial year, available-for-sale financial assets were classified as current assets. In the current financial year, as the intention of the Group has changed to hold the available-for-sale financial assets and not to dispose them in the next twelve months, these available-for-sale financial assets are reclassified to non-current assets.

Notes to the Financial Statements

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

Available-for-sale financial assets are measured in accordance with the accounting policy as set out in Note 2.6 only with effect from 1 April 2005.

The available-for-sale financial assets of HK$4,151,000 (2005: HK$3,401,000) have been pledged as security for the performance bonds issued by a bank on behalf of the Group amounting to HK$4,467,000 (2005: HK$4,467,000).

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	**2005**
	HK$'000	**HK$'000**
Unquoted shares at cost	**41,510**	39,183
Less: Provision for impairment	**(939)**	–
	40,571	39,183

The principal activities of subsidiaries together with information on their places of incorporation and equity interest held by the Group are shown below:

Name	Place of incorporation	Principal activities	Issued and paid-up capital	Percentage of equity held
Held by the Company				
Azeus Systems Limited[(a)]	Hong Kong	IT consulting, project management and systems implementation	HK$2,000,000	100%
Azeus Systems Manila BVI[(b)]	British Virgin Islands	Investment holding	US$50,000	100%
BIGontheNet Pte Ltd[(c)]	Singapore	IT consulting	S$500,000	100%
Held by the subsidiaries				
Azeus Systems Philippines, Inc.[(d)]	Philippines	Software development	Peso 1,000,000	100%
Azeus Systems (Dalian) Co., Ltd [(e)]	People's Republic of China	Software development	US$100,000	100%

(a) Audited by PricewaterhouseCoopers, Hong Kong.
(b) Not required to be audited under the laws of the country of incorporation.
(c) Audited by BDO Raffles, Singapore.
(d) Audited by PricewaterhouseCoopers, Philippines.
(e) Financial year ends on 31 December and audited by 遼寧鼎新會計師事務所有限公司, a local audit firm in the Peoples' Republic of China.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Office equipment HK$'000	Computer equipment HK$'000	Total HK$'000
The Group					
Cost					
At 1 April 2005	799	1,221	34	2,631	4,685
Exchange differences	63	27	3	6	99
Additions	260	165	14	302	741
Disposals	–	–	–	(81)	(81)
At 31 March 2006	1,122	1,413	51	2,858	5,444
Accumulated depreciation					
At 1 April 2005	394	909	22	1,868	3,193
Exchange differences	34	13	2	3	52
Depreciation charge	179	195	8	496	878
Disposals	–	–	–	(81)	(81)
At 31 March 2006	607	1,117	32	2,286	4,042
Net book value					
at 31 March 2006	**515**	**296**	**19**	**572**	**1,402**
The Group					
Cost					
At 1 April 2004	581	1,124	24	2,111	3,840
Exchange differences	2	–	–	–	2
Additions	216	97	2	470	785
Acquisition of subsidiary	–	–	8	50	58
At 31 March 2005	799	1,221	34	2,631	4,685
Accumulated depreciation					
At 1 April 2004	282	713	19	1,244	2,258
Exchange differences	2	1	–	–	3
Depreciation charge	110	195	3	624	932
At 31 March 2005	394	909	22	1,868	3,193
Net book value					
at 31 March 2005	**405**	**312**	**12**	**763**	**1,492**

Notes to the Financial Statements

18. INTANGIBLE ASSET

Goodwill arising from consolidation

	The Company	
	2006	2005
	HK$'000	HK$'000
Cost		
At beginning of financial year		
– As previously reported	**980**	–
– Effect of adoption of FRS 103 (Note 3.1)	**(41)**	–
– As restated	**939**	–
Acquisition of a subsidiary	**–**	980
At end of financial year	**939**	980
Accumulated amortisation and impairment		
At beginning of financial year		
– As previously reported	**41**	–
– Effect of adoption of FRS 103 (Note 3.1)	**(41)**	–
– As restated	**–**	–
Amortisation	**–**	41
Impairment charge	**939**	–
At end of financial year	**939**	41
Net book value	**–**	939

19. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**3,201**	–	**–**	–
Other payables and accruals	**3,311**	2,718	**521**	564
Advances from customers	**4,798**	3,676	**–**	–
Amount due to a subsidiary – non-trade (Note 12)	**–**	–	**104**	104
Amount due to a director	**–**	1	**–**	–
	11,310	6,395	**625**	668

19. TRADE AND OTHER PAYABLES (continued)

The carrying amounts of trade and other payables approximate their fair values and are denominated in the following currencies:

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollar	**6,638**	5,488	**521**	564
United States Dollar	**3,201**	–	**–**	–
Singapore Dollar	**674**	620	**–**	–
Other	**797**	287	**104**	104
	11,310	6,395	**625**	668

20. PROVISION FOR RETIREMENT BENEFIT

The Group has a non-contributory retirement benefit plan (the "Plan") covering substantially all its regular employees in Philippines approved on 17 March 2006. Under the Plan, normal retirement age is 60 years. The retirement plan is intended to provide benefit payments to members with at least 3 years of credited service. The Plan provides a retirement benefit ranging from 175% to 225% of plan salary for every year of credited service.

The movement in the provision for retirement benefit recognised in the balance sheet as at 31 March 2006 is as follows:

	HK$'000
At beginning of financial year	**287**
Currency translation differences	**1**
Charged to income statement	**64**
Contributions paid	**(318)**
At end of financial year	**34**

The principal actuarial assumptions used for financial year ended 31 March 2006 were as follows:

Discount rate	**12%**
Expected rate of return on plan assets	**6%**
Future salary increases	**5%**

Notes to the Financial Statements

21. DEFERRED INCOME TAXES

Deferred income taxes are calculated in full on temporary differences under the liability method using the principal tax rate of the respective countries in which the Group operates.

The movement on the deferred income tax account is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
At beginning of financial year		
– As previously reported	**34**	34
– Adjusted prospectively in accordance with FRS 19	**(102)**	–
– As adjusted	**(68)**	–
Credited to income statement	**(14)**	–
At end of financial year	**(82)**	34

The movement in the deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

Deferred income tax liabilities

	Accelerated tax depreciation
	HK$
At beginning of financial year	130
Charged to income statement	–
At end of financial year	**130**
At beginning of the financial year	130
Charged to income statement	–
At end of financial year	**130**

Notes to the Financial Statements

21. DEFERRED INCOME TAXES (continued)

Deferred income tax assets

	Tax losses HK$	Retirement benefit HK$	Total HK$
At beginning of financial year			
– As previously reported	(96)	–	(96)
– Adjusted prospectively in accordance with FRS 19	–	(102)	(102)
– As adjusted	(96)	(102)	(198)
Credited to income statement	(14)	–	(14)
At end of financial year	**(110)**	**(102)**	**(212)**
At beginning of financial year	(96)	–	(96)
Credited to income statement	–	–	–
At end of financial year	**(96)**	**–**	**(96)**

The tax losses are available to be carried forward for the next three financial years in accordance with relevant tax law of the country in which a subsidiary operates.

22. SHARE CAPITAL

	Issued share capital No. of shares '000	HK$'000
2006		
At beginning and end of financial year	**300,000**	**46,800**
2005		
At beginning of financial year	–	–
Issue of 12,000 ordinary shares of US$1 each at incorporation	12	94
Issue of 4,488,000 ordinary shares of US$1 each pursuant to a restructuring exercise	4,488	35,006
	4,500	35,100
Subdivision of each ordinary shares of US$1 each into 50 ordinary shares of US$0.02 each, resulting in 225,000,000 ordinary shares of US$0.02 each	225,000	35,100
Issue of 75,000,000 new ordinary shares of US$0.02 each pursuant to the initial public offering	75,000	11,700
At end of financial year	300,000	46,800

Notes to the Financial Statements

22. SHARE CAPITAL (continued)

The total authorised number of ordinary shares is 400 million shares (2005: 400 million shares) with a par value of US$0.02 per share (2005: US$0.02 per share). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

23. OTHER RESERVES

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
(a) Composition:				
Fair value reserve	**(534)**	–	**–**	–
Employee share-based payment reserve	**465**	–	**–**	–
	(69)	–	**–**	–

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
(b) Movements:				
(i) Fair value reserve				
At beginning of financial year				
– As previously reported	**–**	–	**–**	–
– Effects of adoption of FRS 39 adjusted prospectively (Note 3.2)	**(439)**	–	**–**	–
– As restated	**(439)**	–	**–**	–
Fair value losses on available-for-sale financial assets (Note 15)	**(95)**	–	**–**	–
At end of financial year	**(534)**	**–**	**–**	**–**

23. OTHER RESERVES (continued)

	The Group		The Company	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
(b) Movements:				
(ii) Employee share-based payment reserve				
At beginning of financial year	**–**	–	**–**	–
Employee share-based payment costs (Note 7)	**465**	–	**–**	–
At end of financial year	**465**	–	**–**	–

24. RETAINED EARNINGS

Movements in retained earnings for the Company are as follows:

	The Company	
	2006	2005
	HK$'000	HK$'000
At beginning of the financial year	**13,920**	–
Dividend paid (Note 25)	**(13,755)**	–
Net profit for the financial year	**16,486**	13,920
At end of the financial year	**16,651**	13,920

Movement in retained earnings for the Group is shown in the Consolidated Statement of Changes in Equity.

25. DIVIDENDS

	The Group and The Company	
	2006	2005
	HK$	HK$
Ordinary dividends paid or proposed		
Final dividend paid in respect of the previous financial year of HK4.60 cents (2004: nil) per share	**13,755**	–

At the Annual General Meeting on 29 July 2006, a final dividend of HK$4.90 cents per share amounting to a total of HK$14.7 million will be recommended. These financial statements do not reflect this dividend, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the financial year ending 31 March 2007.

Notes to the Financial Statements

26. COMMITMENTS

(a) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities, are as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Not later than 1 year	**2,400**	2,047
Later than 1 year but not later than 5 years	**1,404**	2,156
	3,804	4,203

(b) Capital commitments

A purchase of hardware and software products as required under the relevant contract terms of approximately HK$2,513,000 was contracted for at the balance sheet date. The purchases have not been recognised in the financial statements as at balance sheet date.

27. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's exposures to financial risks are set out below.

(i) Foreign exchange risk

The Group mainly operates in Hong Kong and its transactions are mainly denominated in Hong Kong dollar. Hence its exposure to foreign exchange risk is minimised.

The Group has foreign subsidiaries, whose net assets are exposed to currency translation risk. Currency exposure to the net assets of the Group is minimal.

(ii) Interest rate risk

The income and operating cash flows of the Group are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets except for short-term bank deposits (Note 10). The Group also has no significant interest-bearing liabilities.

(iii) Credit risk

The customers of the Group are mainly from the Hong Kong public sector. The Group has policies in place to ensure that the terms of the contract are agreed with the customers to minimise disputes on the amounts billed.

(iv) Liquidity risk

The liquidity risk of the Group is minimal as it maintains sufficient funds through its own resources.

28. RELATED PARTY TRANSACTIONS

In addition to the related party information shown elsewhere in the financial statements, the following significant related party transactions took place during the financial year:

(a) Key management personnel compensation

The key management personnel compensation is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Salaries and other short-term employee benefits	**4,551**	2,932
Post-employment benefits	**109**	125
Share based compensation	**126**	–
	4,786	3,057

The total compensation paid/payable to directors of the Company included in above amounted to HK$1,060,000 (2005: HK$1,008,000).

(b) Provision of legal services

Legal fees amounting to approximately HK$145,000 (2005: HK$1.4million which included fees for services rendered in relation to the initial public offering of the Company) were paid to a firm in which a director of the Company is also a director for services provided in relation to general legal advice and corporate secretarial services rendered to the Group.

29. SEGMENTAL INFORMATION

The activities of the Group are substantially in the information technology services industry with no significant differing risks and returns and therefore, reporting by industry segment is not applicable. As the Group's sales are predominantly derived in Hong Kong, there is no geographical segment information presented.

30. NEW ACCOUNTING STANDARDS

Certain new accounting standards and interpretations have been published that are mandatory for accounting periods beginning on or after 1 April 2006. The Group has assessed that those standards and interpretations will have no material impact on the financial statements in the period of initial application.

31. AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue in accordance with a resolution of the Board of Directors of Azeus Systems Holdings Ltd. on 15 June 2006.

Statistics of Shareholdings

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 – 999	0	0.00	0	0.00
1,000 – 10,000	376	53.11	1,885,000	0.63
10,001 – 1,000,000	319	45.06	26,327,445	8.77
1,000,001 AND ABOVE	13	1.83	271,787,555	90.60
TOTAL	708	100.00	300,000,000	100.00

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1.	MU XIA LTD	153,000,000	51.00
2.	LEE WAN LIK	68,931,555	22.98
3.	DBS VICKERS SECURITIES (S) PTE LTD	14,203,000	4.73
4.	LAM PUI WAN	14,000,000	4.67
5.	LIM & TAN SECURITIES PTE LTD	3,824,000	1.27
6.	HSBC (SINGAPORE) NOMINEES PTE LTD	3,368,000	1.12
7.	OCBC SECURITIES PRIVATE LTD	2,826,000	0.94
8.	CHIN HIN INVESTMENTS PTE LTD	2,616,000	0.87
9.	NOMURA SINGAPORE LIMITED	2,500,000	0.83
10.	LIM GUAN CHIANG ALBERT	2,066,000	0.69
11.	KHOO TEIK LIANG	1,984,000	0.66
12.	PHILLIP SECURITIES PTE LTD	1,369,000	0.46
13.	AVTRADE TRADING PTE LTD	1,100,000	0.37
14.	THAM WAI FONG	777,000	0.26
15.	YAP SOH MOOI	684,000	0.23
16.	CITIBANK NOMINEES SINGAPORE PTE LTD	682,000	0.23
17.	LIM GUAN TECK	662,000	0.22
18.	LEE TONG NGE	605,000	0.20
19.	TIO POH YEN	600,000	0.20
20.	WONG CHEW MING	600,000	0.20
	TOTAL	276,397,555	92.13

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 2:30 p.m. on Friday, 28 July 2006 at Diamond Room, Lobby Level, Sheraton Towers Singapore, 39 Scotts Road, Singapore 228230 to transact the following business:-

Ordinary Business

1. To receive and adopt the Directors' Report and Audited Accounts for the financial year ended 31 March 2006 and the Auditors' Report thereon. **[Resolution 1]**

2. To declare a first and final dividend of 4.90 Hong Kong Cents per ordinary share for the year ended 31 March 2006. **[Resolution 2]**

3. To re-elect the following Directors pursuant to Bye-Law 104 of the Company's Bye-Laws. (Directors due to retire by rotation and are eligible for re-election)

   (a) Mr Yap Wai Ming **[Resolution 3]**

   (b) Mr Michael Yap Kiam Siew **[Resolution 4]**

4. To re-appoint Messrs PricewaterhouseCoopers as Auditors and to authorise the Directors to fix their remuneration. **[Resolution 5]**

5. To approve the payment of Directors' Fees of S$48,000.00 for the year ended 31 March 2006. **[Resolution 6]**

6. To transact any other ordinary business that may be properly transacted at an Annual General Meeting.

Special Business

To consider and, if thought fit, to pass the following as Ordinary Resolutions, with or without modification:-

7. That pursuant to Rule 806 of the SGX-ST Listing Manual, authority be and is hereby given to the Directors of the Company to allot and issue whether by way of rights, bonus or otherwise (i) shares; (ii) convertible securities; (iii) additional convertible securities (where an adjustment to the number of convertible securities to which a holder is originally entitled to, is necessary as a result of any rights, bonus or other capitalization issues by the Company), notwithstanding that such authority may have ceased to be in force at the time such additional convertible securities are issued, provided that the adjustment does not give the holder of the convertible securities a benefit that a shareholder does not receive; and/or (iv) shares arising from the conversion of securities in (ii) and additional convertible securities in (iii) above, notwithstanding that such authority may have ceased to be in force at the time the shares are to be issued, and any such issue may be made at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit, PROVIDED THAT:

   (i) the aggregate number of shares and convertible securities to be issued pursuant to this resolution shall not exceed 50% of the issued share capital of the Company, of which the aggregate number of shares and convertible securities issued other than on a pro rata basis to existing shareholders of the Company shall not exceed 20% of the issued share capital of the Company; and

Notice of Annual General Meeting

(ii) subject to such manner of calculation as may be prescribed by the SGX-ST, for the purpose of this resolution, the percentage of the issued share capital shall be based on the Company's issued share capital at the time this resolution is passed, after adjusting for:

(a) new shares arising from the conversion or exercise of the convertible securities; and

(b) any subsequent consolidation or subdivision of the Company's shares,

and further, unless revoked or varied by the Company in general meeting, the authority conferred by this resolution shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is the earlier. [See Explanatory Note (i)] **[Resolution 7]**

8. Authority to allot and issue shares under the Azeus Employee Share Option Scheme

That the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the provisions of the Azeus Employee Share Option Scheme ("Scheme") and to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options under the Scheme provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed fifteen per cent (15%) of the total issued share capital of the Company from time to time. [See Explanatory Note (ii)] **[Resolution 8]**

By Order of the Board
Paul Michael Fitzgerald/Lean Min-tze

Joint Company Secretaries
Singapore
13 July 2006

Notice of Annual General Meeting

Explanatory Notes:

(i) **Resolution 7**, if passed, will authorise the Directors of the Company to allot and issue shares and convertible securities in the capital of the Company up to an amount not exceeding 50% of the Company's issued share capital with an aggregate sub-limit of 20% of the Company's share capital issued other than on a pro rata basis to existing shareholders of the Company. The Company cannot rely on the authority given under Resolution 7 for an issue of convertible securities if the maximum number of shares to be issued upon conversion cannot be determined at the time of issue of the convertible securities.

(ii) **Resolution 8**, if passed, will authorise the Directors to offer and grant options in accordance with the provisions of the Scheme and to allot and issue shares under the Scheme up to an amount not exceeding 15% of the total issued ordinary share capital of the Company from time to time.

Notes:

1. A member entitled to attend and vote at the Annual General Meeting may appoint not more than two proxies to attend and vote on his behalf and where a member appoints more than one proxy, the proportion of the shareholding interest concerned to be represented by each proxy shall be specified in the form of proxy. A proxy need not be a member of the Company. The instrument appointing a proxy must be deposited at the office of the Company's Share Transfer Agent, Lim Associates (Pte.) Ltd at 10 Collyer Quay #19-08 Ocean Building, Singapore 049315, at least 48 hours before the time set for the holding of the Annual General Meeting.

2. If a Shareholder being a Depositor whose name appears in the Depository Register (as defined in Section 130A of the Companies Act, Cap. 50 of Singapore) wishes to attend and vote at the Annual General Meeting, then he/she/it should deposit the proxy form pre-signed by CDP designated for Depositors (the "**CDP Proxy Form**") at the office at the Singapore Share Transfer Agent, Lim Associates (Pte.) Ltd at 10 Collyer Quay #19-08 Ocean Building, Singapore 049315, at least 48 hours before the time of the Annual General Meeting.

3. If a Depositor wishes to appoint other persons to attend in his/her/its stead, then the CDP Proxy Form must be completed and signed by the Depositor and deposited at the office of the Singapore Share Transfer Agent, Lim Associates (Pte) Ltd at 10 Collyer Quay #19-08 Ocean Building, Singapore 049315, at least 48 hours before the time of the Annual General Meeting.

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