

DRIVING INNOVATION

ANNUAL REPORT 2016



AZEUS
A CMMI LEVEL 5 COMPANY
Azeus Systems Holdings Ltd.



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**ESTABLISHED IN 1991,
WE ARE A LEADING IT
SERVICES PROVIDER
SUCCESSFULLY
DELIVERING IT SOLUTIONS
TO VARIOUS CLIENTS IN
ASIA PACIFIC AND THE
UNITED KINGDOM (“UK”).**



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 programmes of IT systems to fulfill the outsourcing needs of our customers.

We also provide a vast spectrum of maintenance and support services. One of our milestone achievements is having won the first business outsourcing project from the Hong Kong Government – covering IT process, 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 20 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.

CORPORATE INFORMATION

Board Of Directors

Mr Lee Wan Lik (Managing Director)
Ms Lam Pui Wan (Executive Director)
Mr Michael Yap Kiam Siew (Lead Independent Director)
Mr Koji Miura (Independent Director)
Mr Chan Ching Chuen (Independent Director)

Senior Management

Ms Peggy Sam (Group Financial Controller)
Ms Mary Rose T. Tan (President of Azeus Philippines)
Mr Rene Toling Lindio (Chief Technology Officer)
Mr Jerry Chua (Director of Azeus Philippines)
Miss Eleanor Jim (Vice President)
Mr Stephen Ma (Vice President)

Audit Committee

Mr Koji Miura (Chairman)
Mr Michael Yap Kiam Siew
Mr Chan Ching Chuen

Remuneration Committee

Mr Michael Yap Kiam Siew (Chairman)
Mr Koji Miura
Mr Chan Ching Chuen

Nominating Committee

Mr Chan Ching Chuen (Chairman)
Mr Michael Yap Kiam Siew
Mr Lee Wan Lik

Company Secretary

Mr Yap Wai Ming

Registered Off ce

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

Principal Off ce

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

Bermuda Share Registrar And Share Transfer Agent

Appleby Management (Bermuda) Ltd
Canon's Court
22 Victoria Street
Hamilton 12
Bermuda

Singapore Share Transfer Agent

Boardroom Corporate & Advisory Services Pte Ltd
50 Raffles Place
#32-01 Singapore Land Tower
Singapore 048623

Auditors

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants
8 Cross Street
#17-00 PWC Building
Singapore 048424

Ms Charlotte Hsu

Partner-in-charge since financial year
ended 31 March 2014

Principal Bankers

Hang Seng Bank Limited
83 Des Voeux Road Central
Central, Hong Kong
Dah Sing Bank Limited
34th Floor
Dah Sing Financial Center
108 Gloucester Road
Hong Kong

Principal Legal Adviser

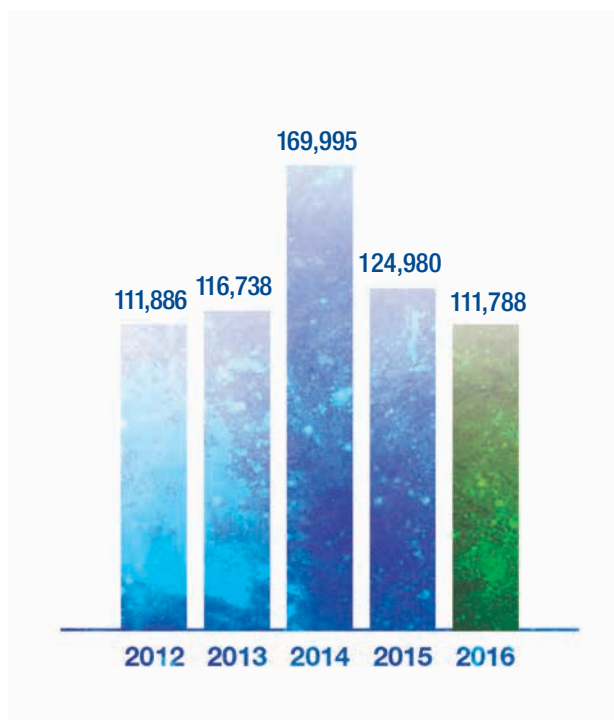
Morgan Lewis Stamford LLC
10 Collyer Quay
Ocean Financial Centre Level 27
Singapore 049315

Investor Relations Contact

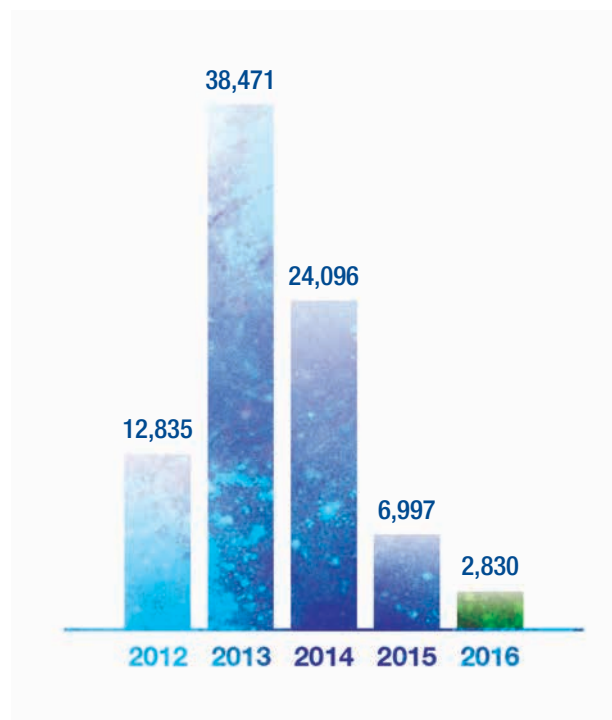
Citigate Dewe Rogerson i.MAGE Pte Ltd
55 Market Place
#02-01
Singapore 048941
Tel: (65) 6534 5122
Fax: (65) 6534 4171

FINANCIAL HIGHLIGHTS

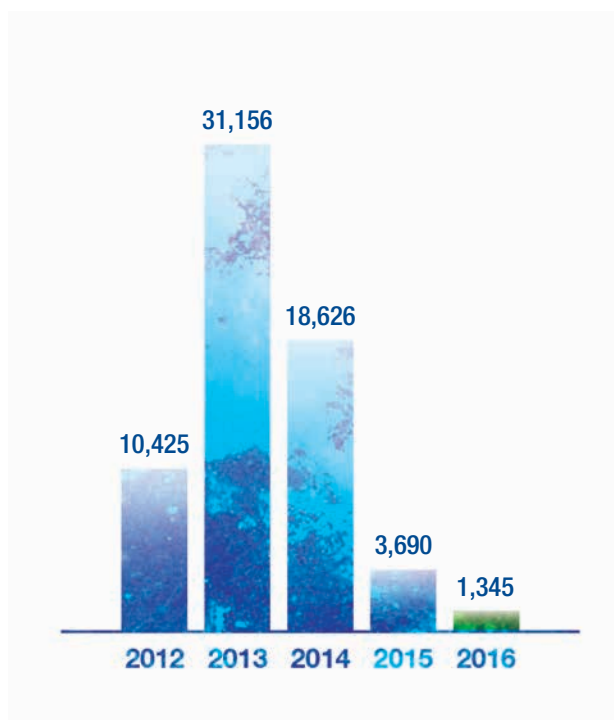
REVENUE (HK \$'000)



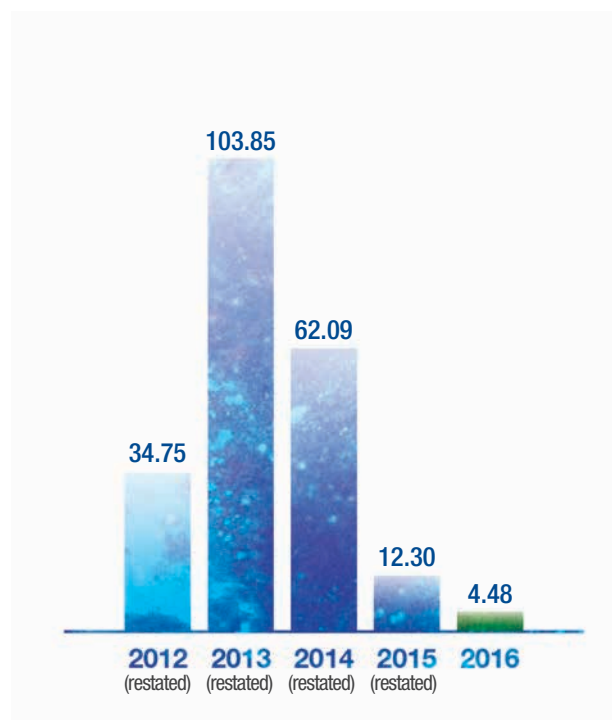
PROFIT BEFORE TAX (HK \$'000)



NET PROFIT (HK \$'000)



EARNINGS PER SHARE (HK Cents)



OUR SERVICES

ITCS

IT CONSULTANCY SERVICES

Azeus offers clients with consultancy services in developing comprehensive business and technology strategies to ensure long-term business growth and success.

MSS

MAINTENANCE & SUPPORT SERVICES

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



OUR PRODUCTS

**WITH OUR CORE GROUP OF HIGHLY SKILLED
AND DRIVEN IT PROFESSIONALS, ALONG
WITH OUR WORLD-CLASS SOFTWARE
ENGINEERING PROCESSES, AZEUS DEVELOPS A
NUMBER OF INNOVATIVE TECHNOLOGIES AND
SOLUTIONS TO HELP YOU AUTOMATE YOUR
ORGANISATION'S EXISTING OPERATIONS.**



azeuscare



convene

Smart. Simple. Secure.



MANAGING DIRECTOR'S MESSAGE

“Revenue from our IT Services business from Hong Kong’s public sector continues to remain the Group’s major revenue contributor as we continue to deliver and maintain high value complex IT systems for existing customers during the year.”



Dear Shareholders,

On behalf of the Board of Directors, I present to you our annual report for the financial year ended March 31, 2016 (“FY2016”).

FY2016 Financial Review

Azeus’ operating environment has been challenging during the year under review as the Group’s revenue declined by 10.6% to HK\$111.8 million. Professional IT Services segment remains the main revenue contributor, contributing 93.4% of total revenue. Nonetheless, we continued to maintain our market position in Hong Kong’s public sector to deliver and maintain high value complex IT systems.

Within the Professional IT Services, revenue from Maintenance and Support Services has surpassed the IT Services as the largest revenue contributing segment for Azeus since FY2015. Maintenance and Support Services revenue rose 15.4% from HK\$54.4 million in the preceding year to HK\$62.7 million, accounting for more than half of the Group’s total revenue. This partly offsets the 22.8% decline in revenue to HK\$41.7 million brought about by fewer IT services contracts secured and implemented in yet another challenging financial year.

The Business Process Outsourcing did not contribute any revenue in the year under review as the contract expired on 30 November 2014.

Revenue from the Azeus Product Sales segment recorded a marginal decrease to HK\$7.4 million in FY2016 from HK\$7.9 million in the preceding financial year. Revenue is derived from the sale of two proprietary products, “Azeus Convene” and “AzeusCare”, and via two revenue sources – subscription revenue from customers and the related professional services such as project management, implementation services and training fees.

The Group’s cost of sales decreased by 6.3% to HK\$74.7 million in FY2016 due to a decrease in direct salaries which was offset by an increase in the amortisation of intangible assets by HK\$3.5 million. Overall, Azeus was able to achieve a gross profit margin at 33.2% in FY2016 as compared to 36.2% a year ago.

Selling and marketing expenses more than doubled to HK\$14.2 million in FY2016 from HK\$6.5 million in FY2015 as our Group expanded its global sales team and intensified its sales and marketing efforts for its cloud-based offering. This is part of our Group’s plan to develop its Azeus Products Sales segment as the next business growth driver.

While the Group recognised HK\$8.8 million in FY2016 for a one-off legal fee compensation relating to an arbitration settled in favour of the Group on April 15, 2015, this was more than offset by lower gross profit and higher selling and marketing expenses incurred during the year. As a result, profit attributable to equity holders dropped 64% to HK\$1.3 million.

Despite the challenges of the year in review, our Group maintained a healthy net cash position of HK\$68.4 million, inclusive of HK\$3.8 million in pledged deposits, with no debts or bank borrowings.

Building on Core Competencies

Over the past 25 years, Azeus has pride itself on our capabilities as a leading provider of IT consultancy services with a proven track record in delivering and maintaining high complex IT solutions for over 120 projects across the public and private sectors.

Our Group capitalised on our enterprise software engineering skills to develop two proprietary products, “Azeus Convene” and “AzeusCare”. Azeus has made good progress in our software products and has since achieved an international customer base spanning over 30 countries across North America, Europe, Africa, Asia and Australia.

Our Group believes that only through further investments in sales and marketing, and product development will Azeus be able to keep pace with innovation and achieve new levels of growth. With sound core business fundamentals providing us with a strong support system, our Group remains focused on building up our capacity in Azeus Product Sales segment through aggressive investment in our software products as we seek to unlock further shareholder value and secure the long-term future of Azeus.

Dividend

The Board would like to thank our shareholders for their continued support and confidence in Azeus, despite the challenging sales environment. Our Group has recommended a first and final dividend of 4.47 HK cents per ordinary share, subject to shareholders’ approval in the upcoming Annual General Meeting on 8 July 2016.

Words of Appreciation

Azeus has consistently been able to deliver high quality solutions over the years, even as the business environment becomes increasingly competitive. We are grateful for the support and belief shown in our Group and our success thus far would not have been possible without our stakeholders.

On behalf of the Board of Directors, I would like to express my most sincere appreciation to all our employees, customers, shareholders and business partners.

Yours sincerely,

LEE WAN LIK

Founder and Managing Director

BOARD OF DIRECTORS

MR LEE WAN LIK

Managing Director

Appointed to our Board on 12 May 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 HongKong Institution of Engineers and past Chairman of its IT division. He is also a Fellow of the British Computer Society and the Institution of Engineering and Technology.

MS LAM PUI WAN

Executive Director

Ms Lam Pui Wan was appointed to our Board on 12 May 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 MICHAEL YAP KIAM SIEW

Lead Independent Director

Mr Michael Yap Kiam Siew was appointed as an Independent Director of Azeus on 14 September 2004. He is the Founder and Chairman of Skyvest International Limited and The Co-Foundry Pte Ltd. Prior, he served as the Deputy Chief Executive Officer of the Media Development Authority of Singapore (MDA) until January 2013.

Prior to his position at MDA, 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 was 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 BusinessWeek'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 14 September 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.

MR CHAN CHING CHUEN
Independent Director

Mr Chan Ching Chuen, joined Azeus Systems Holdings Board of Directors on 1 February 2008 as an Independent Director. Mr Chan is an Honorary Professor at Hong Kong University's Department of Electrical and Electronics Engineering. He was the head of the Department of Electrical and Electronics Engineering, University of Hong Kong from 1994 to 2000. He is the Founding President of World Electric Vehicle Association, Past President of Hong Kong Institution of Engineers.

He is a Fellow of the Royal Academy of Engineering, U.K., the Chinese Academy of Engineering, the Ukraine Academy of Engineering Sciences, Honorary Fellow of Hungarian Academy of Engineering and a Fellow and Vice President (2000-2003) of Hong Kong Academy of Engineering Sciences. He is also a Fellow of IEEE, IET and HKIE. He is lecturing on electric vehicles worldwide. He was awarded the IEE International Lecture Medal, Gold Medal of Hong Kong Institution of Engineers and Prince Philip Medal of Royal Academy of Engineering in 2000, 2010 and 2014 respectively.

In 2001, he was selected as one of Asia's Best Technology Pioneers by Asiaweek. During his career, Mr Chan has advised on various consultancy projects for large corporations as well as serving as advisor to government agencies.

Mr Chan graduated from Tsing Hua University in 1959 with a Master of Science in Electrical Engineering, later achieving his PhD in 1982 from University of Hong Kong. From 1959 through 1966, Mr Chan started his career lecturing at China University of Mining & Technology. From 1967 through 1976, Mr Chan engaged in the design of new electric machines in Shanghai.

SENIOR MANAGEMENT

MS PEGGY SAM

Group Financial Controller

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

Between 1994 and 2003, Ms Sam was with Pricewaterhouse Coopers, including a two year secondment to Pricewaterhouse Coopers, 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 Accountants. Ms Sam is also a member of Certified General Accountants Association of Canada since 2009.

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 Philippines 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.

Mr Lindio joined Azeus Philippines as a Junior Associate in April 1994 and was promoted to Chief Technology Officer in 2004. He holds a Bachelor of Science in Mathematics from the University of the Philippines – Los Banos.

MR JERRY CHUA

Director of Azeus Philippines

Mr Jerry Chua joined Azeus Philippines in March 1995. He currently assists in the general management of the Group's Philippines operation.

Mr Chua holds a Bachelor of Science in Computer Science from Ateneo de Manila University and a Master of Business Administration from University of the Philippines.

MISS ELEANOR JIM

Vice President

Miss Eleanor Jim joined Azeus Systems in May 2005. She currently assists in the general management of the Group's overseas operation as well as management of contracts and agreements.

She holds a Bachelor of Engineering in Electrical and Electronic Engineering from the University of Hong Kong and a Master of Science in Information Engineering from the Chinese University of Hong Kong. She also holds a Bachelor of Laws (LLB) from the University of London.

MR STEPHEN MA

Vice President

Mr Stephen Ma joined Azeus Hong Kong in June 1993 as a Junior Associate. He holds a Bachelor of Science in Computer Science from the University of Hong Kong.

Mr Ma is responsible for the management of professional services in the Group's Hong Kong operation. He has been involved in programme management for the information technology professional services of the Office of Government Chief Information Officer of Hong Kong since 2007.

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.

Rule 710 of the Listing Manual of the Singapore Exchange Securities ("SGX-ST") require an issuer to describe its corporate governance practices with specific reference to the principles of the Code of Corporate Governance 2012 (the "Code") in its annual report. An issuer is required to disclose any deviations from any Principles and Guidelines of the Code together with an appropriate explanation for such deviation in the annual report. This report outlines the Company's corporate governance processes and activities with specific reference to the Code. The Company has complied with the principles and guidelines as set out in the Code where appropriate.

BOARD MATTERS

Principle 1: The 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 of the Company and the Group, 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 to:

- (a) provide entrepreneurial leadership, set strategic objectives, and ensure that the necessary financial and human resources are in place for the company to meet its objectives;
- (b) establish a framework of prudent and effective controls which enables risks such as financial, operational, information technology and compliance to be assessed and managed, including safeguarding of shareholders' interests and the company's assets;
- (c) review management performance;
- (d) identify the key stakeholder groups and recognise that their perceptions affect the Company's reputation;
- (e) set the Company's values and standards (including ethical standards), and ensure that obligations to shareholders and other stakeholders are understood and met; and
- (f) consider sustainability issues, e.g. environmental and social factors, as part of its strategic formulation.

The Board meets at least twice a 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 as and when circumstances require, such as to address significant transactions or issues. Where physical meetings are not possible, timely communication with members of the Board and Board Committees can be achieved through electronic means and circulation of written resolutions for approval by the Board or relevant Board Committees. The Company's Bye-Laws provides for Directors to participate in Board by means of teleconference, video-conferencing and visual equipment.

To assist in the efficient implementation and execution of its responsibilities, the Board has established an Audit Committee, a Nominating Committee and a Remuneration Committee. Specific responsibilities, which are outlined in the respective Terms of Reference, have been delegated to each of the committees. Each Board Committee will report to the Board and makes its recommendations to the Board on matters under its purview. The Board accepts that while these Committees have the authority to examine particular issues and will report to the Board their decisions and recommendations, the ultimate responsibility for the final decision on all matters lies with the entire Board.

CORPORATE GOVERNANCE REPORT

The Board through the Nominating Committee (“NC”) ensures that it recruits to the Board only individuals of sufficient calibre, knowledge and experience to fulfil the duties of a Director appropriately. Newly appointed directors are briefed on the Group’s business activities and governance practices and provided with information on their duties and obligations as a director under the Bermuda law.

During the financial year ended 31 March 2016, the number of meetings held by the Board and its committees and the details of the attendances are as follows:-

	Board of Directors	Audit Committee	Remuneration Committee	Nominating Committee
Number of Meetings held	2	2	1	1
Name	Number of Meetings attended			
Mr Lee Wan Lik (Managing Director and CEO) – spouse of Ms Lam Pui Wan	2	2*	1*	1
Ms Lam Pui Wan (Executive Director) – spouse of Mr Lee Wan Lik	2	2*	1*	1*
Mr Michael Yap Kiam Siew (Independent Director)	2	2	1	1
Mr Koji Miura (Independent Director)	2	2	1	1*
Mr Chan Ching Chuen (Independent Director)	2	2	1	1

Notes: *- by invitation

Key matters that are specifically reserved for the Board’s consideration and decision include, but are not limited to, corporate planning, material acquisitions and disposals of assets, corporate or financial restructuring, share issuances, formulation of any dividend policy or the change of such dividend policy, declaration of dividends and determining the remuneration policy for the Directors.

Principle 2: Board Composition and Guidance

The Board currently comprises of 5 members, three of whom are Independent Directors. A brief profile of each Director is presented in the profile of Board of Directors section of this Annual Report and their shareholdings in the Company and its subsidiaries as at 31 March 2016 are disclosed in the Directors’ Report of the Audited Financial Statements for the financial year ended 31 March 2016.

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 NC 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 NC 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 judgement.

Even though Mr Michael Yap Kiam Siew and Mr Koji Miura have served on the Board for more than nine years, the NC, with the concurrence of the Board, is of the view that in assessing the independence of the Independent Directors, one should consider the substance of their professionalism, integrity and the objectivity and not merely based on the number of years which they have served on the Board. In view of this, having considered the above and weighing the need for progressive refreshing of the Board, the NC and the Board have determined that both Mr Yap and Mr Miura’s tenure in office have not affected their independence or ability to bring about independent and considered judgement to bear in the discharge of their duties as members of the Board. They provide a strong independent element on the Board, being free from any business or other relationship, which could materially interfere with the exercise of their judgement. These Directors continue to provide stability to the Board and the Company has benefited greatly from the presence of individuals who are specialists in their own field. Furthermore, their length of service on the Board has not only allowed them to gain valuable insight into the Group, its business, markets and industry, but has also given them the opportunity to bring the full breadth and depth of their business experience to the Company.

CORPORATE GOVERNANCE REPORT

The Non-Executive Directors met up without the presence of Management, to facilitate a more effective check on the Management.

Principle 3: Chairman and Chief Executive Officer (“CEO”)

The Group’s Executive Chairman, Managing Director and CEO 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 being 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 NC, with the concurrence of the Board is of the opinion that vesting the roles of both Chairman and CEO in the same person who is knowledgeable in the business of the Group provides strong and consistent leadership, thus allowing for more effective planning and execution of long term business strategies. As such, there is no need for the role of the Chairman and CEO to be separated. The NC will review the need to separate the roles from time to time and make its recommendations accordingly. The role of Mr Lee as the Chairman and CEO of the Company does not affect the independence of the Board as the Independent Directors make up more than 50% of the Board.

Taking cognizance that the Chairman and the CEO are the same person, the Board has appointed Mr Michael Yap Kiam Siew as Lead Independent Director (“LID”), the appointment being effective for the financial year ended 31 March 2015 onwards. Mr Yap will be available to shareholders where they have concerns where contact through the normal channels of the Chairman, CEO or CFO has failed to resolve or for which such contact is inappropriate. He can also facilitate periodic meetings with the other Independent Directors in board matters, when necessary and provides feedback to the Executive Chairman after such meeting.

His other specific roles as LID are as follows:

- (a) act as liaison between the Independent Directors and the Executive Chairman and CEO and lead the Independent Directors to provide non-executive perspectives in circumstances where it would be inappropriate for the Executive Chairman to serve in such capacity and to contribute a balanced viewpoint to the Board;
- (b) advise the Executive Chairman of the Board as to the quality, quantity and timeliness of the information submitted by Management that is necessary or appropriate for the Independent Directors to effectively and responsibly perform their duties; and
- (c) assist the Board and Company officers in better ensuring compliance with and implementation of corporate governance.

Principle 4: Board Membership

The Nominating Committee (“NC”) comprises Mr Chan Ching Chuen as Chairman, Mr Michael Yap Kiam Siew and Mr Lee Wan Lik as members.

The NC should make recommendations to the Board on relevant matters relating to:-

- (a) the review of board succession plans for directors, in particular, the Chairman and for the CEO;
- (b) the evaluation of the performance of the Board and Board Committees as a whole;
- (c) the review of training and professional development programs for the Board; and
- (d) the appointment and re-appointment of directors (including alternate directors, if applicable).

CORPORATE GOVERNANCE REPORT

The NC has adopted the Code's definition and criteria for independence. Each Independent Director is required to submit a Confirmation of Independence Form annually for the NC's review.

During the year, the NC has reviewed the independence of the Independent Directors according to the criteria set out in the Code. These Directors have demonstrated strong independence in character and judgement over the years in discharging their duties and responsibilities as Independent Directors. They continue to express their individual viewpoints, debate on issues, objectively scrutinise and challenge Management's proposals as well as participate in discussions on business activities and transactions involving conflicts of interests and other complexities.

Having considered the above, the NC is of the view that Mr Michael Yap Kiam Siew, Mr Koji Miura and Mr Chan Ching Chuen are independent. All three directors have abstained from any discussion and recommendation in respect of their own independence.

None of the above three Independent Directors are related to, and do not have any relationship with, the Company, its related corporations, its 10% shareholders, or its officers or are in any circumstances that could interfere, or be reasonably perceived to be interfere, with the exercise of their independence business judgement with a view to the best interests of the Company. The Board has concurred with the NC's assessment.

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.

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 (3) 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.

In the selection and nomination for new directors, the NC identifies the key attributes that an incoming director should have, based on attributes of the existing Board and the requirements of the Group. After endorsement by the Board of the key attributes, the NC taps on the resources of the directors' personal contacts for recommendations of potential candidates. The potential candidates will go through a short listing process. Interviews are then set up with the short listed candidates for the NC to assess them before a decision is made.

A newly appointed Director will have to submit himself for retirement and election at an Annual General Meeting ("AGM") immediately following his appointment and thereafter, be subjected to retirement by rotation. No new Director was appointed by the Company in FY2016.

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 Board has set the maximum number of 10 listed company board representations which any Director of the Company may hold at any one time. All Directors have complied with this requirement. A Director with multiple board representations is expected to ensure that sufficient time and attention is given to the affairs of the Company. The NC is of the view that the number of directorships a Director can hold and his principal commitments should not be prescriptive as the time commitment for each board membership will vary.

The NC, having considered the confirmations received from the Independent Directors, is of the view that the other board representations and principal commitments of the Independent Directors do not hinder them from carrying out their duties to the Company. The NC is satisfied that sufficient time and attention have been accorded by these Independent Directors to the affairs of the Company. The Board concurred with the NC's views.

Please refer to the Profile of Board of Directors as set out on Page 8 of the Annual Report for key information on the Directors, and the Notice of AGM as set out on Page 68 of the Annual Report for Directors proposed for re-election or re-appointment (as the case may be). These Directors have expressed their consent to seek re-election as Directors of the Company at the forthcoming AGM. The NC has recommended their nomination for re-election. The Board has accepted the NC's recommendation. Currently, no alternate Directors have been appointed in respect of any of the Directors.

CORPORATE GOVERNANCE REPORT

Principle 5: Board Performance

The NC will assess the effectiveness of the Board and its board committees as a whole.

The NC, in considering the re-appointment of a Director, will evaluate the performance of the Director's contributions such as his or her attendance record at meetings of the Board and Board committees, active participation during these meetings and the quality of his or her contributions. The NC has initiated the assessment of the effectiveness of the Board as a whole on an annual basis. The evaluation of the Board's performance is conducted by means of a questionnaire which is then collated and the findings analysed and discussed. The results of the Board's performance assessment are reviewed and circulated to the Board for consideration. Recommendations to further enhance the effectiveness of the Board are implemented as appropriate.

The Board has allocated budgets for directors to attend training and will make recommendations to the Board on the training and professional development programmes for the Board members.

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).

The appointment and the removal of the company secretaries should be a matter reserved for the Board.

The Board, in the furtherance of their duties, may either individually or as a group, to take independent professional advice at the expense of the Company.

REMUNERATION MATTERS

Principle 7: Procedures for Developing Remuneration Policies

The Remuneration Committee ("RC") comprises Mr Michael Yap Kiam Siew as Chairman and Mr Koji Miura and Mr Chan Ching Chuen as members. All of them are Independent Directors of the Company.

The RC is responsible for:-

- (a) recommending to the Board a remuneration framework for the Board key management personnel;
- (b) determining a specific remuneration package for each Director and each of the key management personnel; and
- (c) considering all aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses, options, share-based incentives and awards, and benefits-in-kind.

The RC has access to expert advice in the field of Executive compensation outside the Company, as and when required.

CORPORATE GOVERNANCE REPORT

Principle 8: Level and Mix of Remuneration

The Executive Directors do not receive director's fees. The remuneration of the Executive Directors and the key management personnel comprises a basic salary component and a variable component which is the annual bonus, based on the performance of the Group as a whole or their individual performance.

Principle 9: Disclosure on Remuneration

Directors' remuneration

A breakdown, showing the level and mix of each individual director's remuneration paid or payable for the financial year ended 31 March 2016 is as follows:

Name of Director	Salary	Bonus	Director's fees	Retirement and post-employment benefits	Total
Mr Lee Wan Lik – spouse of Ms Lam Pui Wan	HK\$600,000	–	–	HK\$18,000	HK\$618,000
Mr Michael Yap Kiam Siew (S\$28,000)	–	–	HK\$156,000	–	HK\$156,000
Mr Koji Miura (S\$25,000)	–	–	HK\$140,000	–	HK\$140,000
Mr Chan Ching Chuen (S\$25,000)	–	–	HK\$140,000	–	HK\$140,000
Ms Lam Pui Wan – spouse of Mr Lee Wan Lik	HK\$208,000	–	–	–	HK\$208,000

The Company has only 6 key management personnel and the disclosure of their remuneration in bands of S\$250,000 for the financial year ended 31 March 2016 is as follows:

Remuneration band and name of key management personnel	Salary	Bonus	Retirement and post-employment benefits	Total
Individual remuneration is <S\$250,000 (approximately HK\$1,500,000)				
Ms Mary Rose T. Tan	85%	–	15%	100%
Mr Rene Toling Lindio	85%	–	15%	100%
Mr Jerry Chua	86%	–	14%	100%
Ms Peggy Sam	100%	–	–	100%
Miss Eleanor Jim	98%	–	2%	100%
Mr Stephen Ma	98%	–	2%	100%
Total remuneration paid in FY 2016 to the key Executives	HK\$3,155,838	–	HK\$203,415	HK\$3,359,253

The remuneration of the Independent Directors is in the form of a fixed fee. The fees of the Directors will be subject to shareholders' approval at the AGM. The RC is of the view that the current remuneration of the Independent Directors is appropriate, taking into account factors such as effort and time expended and responsibilities. Other than Directors' fees, the Independent Directors do not receive and other form of remuneration from the Company. The RC has recommended the payment of the Directors' fees of S\$78,000 for the financial year ended 31 March 2016. This recommendation has been endorsed by the Board and will be tabled at the Company's AGM for shareholders' approval.

CORPORATE GOVERNANCE REPORT

Mr Lee Wan Lik has entered into a service agreement (the “Service Agreement”) with the Company. The Service Agreement is valid for a term of one year with effect from 3 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 the 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 S\$50,000 in the financial year ended 31 March 2016.

Annual bonus

The remuneration packages of the Executive Directors and key management personnel include a discretionary variable annual bonus which is based on the Company’s and the individual’s performance and have been designed to align their interests with those of shareholders. The key management personnel have met the performance conditions required of them for the financial year ended 31 March 2016.

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. Under the Scheme, the aggregate number of shares to be issued shall not exceed 15 per cent of the total issued number of the issued shares (excluding treasury shares) of the Company from time to time. Further details of the Scheme can be found on page 23 of the Annual Report. No options have been granted to controlling shareholders, key management or employees of the Company and its subsidiaries or their associates since the inception of the Scheme.

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: Risk Management and Internal Controls

The Board is responsible for ensuring that there is a system of internal financial controls, operational and compliance controls and information technology controls, and risk management policies and for reviewing its adequacy and effectiveness. The Management is responsible for internal control and for ensuring compliance therewith. The Audit Committee (“AC”) assists the Board in discharging its internal control review responsibilities. The Board makes continuous efforts to embed internal controls into the operations of the businesses and to deal with areas of improvement which come to the attention of Management and the Board.

CORPORATE GOVERNANCE REPORT

The Company does not have a Risk Management Committee. However, Management regularly reviews the Group's business and operational activities to identify areas of significant business risks as well as appropriate measures to control and mitigate these risks. The Management reviews all significant control policies and procedures and highlights all significant matters to the Board and the AC. The Group's financial risk management is disclosed under Note 28 of the Notes to the Financial Statements on Pages 55 to 61 of this Annual Report.

The Company has engaged BDO Financial Services Limited, the internal auditor, to perform a risk assessment update and perform a follow-up review and test of key controls for identified risks in key areas of the Group's operations, with the objectives of mitigating the risks and enhancing operating effectiveness. Material non-compliance and internal control weaknesses as well as recommendations for improvements noted during the audit were reported to the AC. The AC has reviewed the effectiveness of the action taken by the Management on the recommendations made by the internal auditor in this respect.

The Board notes that these internal control systems are designed to manage rather than to eliminate the risk of failure to achieve business objectives. In addition, these systems can only provide reasonable but not absolute assurance against material misstatement or loss.

For FY2016, the Board is of the view that based on the reports from the internal auditor, the system of internal controls that has been maintained by Management throughout the financial year is adequate to meet the needs of the Company.

The Board has received written assurances from the CEO and the Group Financial Controller (a) that the financial records have been properly maintained and the financial statements give a true and fair view of the Company's operations and finances; and (b) that the risk management and internal control systems of the Company is adequate and effective to deal with major risks relating to financial, operational, information technology and compliance aspects.

Based on the systems of risk management and internal controls established and maintained by the Group, work performed and reports by the internal and external auditors and the above written assurances, the Board, with the concurrence of the AC, is of the opinion that the Group's risk management and internal controls systems, addressing the financial, operational, compliance and information technology risks, are effective and also adequate.

Principle 12: Audit Committee

The AC comprises three independent Non-Executive Directors, with Mr Koji Miura as Chairman, and Mr Michael Yap Kiam Siew and Mr Chan Ching Chuen as members. The Board is of the view that the AC members are appropriately qualified, having the necessary recent and relevant accounting and/or related financial management expertise or experience as the Board interprets such qualifications to discharge their responsibilities. None of the members of the AC was a former partner or director of the External Auditors, PricewaterhouseCoopers LLP.

The AC has kept the recent and relevant accounting or related financial management expertise or experience up-to-date by attending the training provided by the relevant regulatory parties.

In addition, the auditor of the Company provides update on recent developments to accounting standards to AC members on half yearly basis to ensure all AC members and management to keep abreast of the changes to accountings standards and issues which have a direct impact on financial statements.

The AC will meet periodically to, inter alia:

- (a) review the significant financial reporting issues and judgements so as to ensure the integrity of the financial statements of the Company and any announcements relating to the Company's financial performance;
- (b) review with the internal auditor their audit plan and report to the Board at least annually the adequacy of the internal audit procedures and their evaluation of the effectiveness of the Company's overall internal controls, including financial, operational, compliance and information technology controls;
- (c) review interested person transactions, if any, to ensure that the internal control and review procedures are adhered to;

CORPORATE GOVERNANCE REPORT

- (d) review the scope and results of the external audit, and the independence and objectivity of the external auditors; and
- (e) make recommendations to the Board on the proposals to the shareholders on the appointment, re-appointment and removal of the external auditors, and approving the remuneration and terms of engagement of the external auditors.

Apart from the above functions, the 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 the 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 external auditors, is satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors.

The AC has accordingly recommended to the Board that the auditor, PricewaterhouseCoopers ("PwC") LLP, be nominated for re-appointment as auditor at the forthcoming AGM of the Company.

For the financial year ended 31 March 2016, remuneration paid and payable to PwC LLP in relation to audit and non-audit services were HK\$1,111,000 and HK\$31,000 respectively.

In line with the Code, a private session between the AC with the external and the internal auditors was held to discuss any matters concerning the Company without the presence of the Management. Both the internal and external auditors have confirmed that they have access to and received the co-operation and assistance from Management and no restrictions were placed on the scope of their respective audits.

The AC has confirmed the Company has complied with Rule 712 of the Listing Manual of the SGX-ST in that PwC LLP is registered with the Accounting and Corporate Regulatory Authority. The AC is satisfied that the resources and experience of PwC LLP, the audit engagement partner and her team assigned to the audit of the Group are adequate to meet their audit obligations, given the size, nature and operations of the Group.

The AC has also confirmed that the Company has complied with Rule 715 of the Listing Manual of the SGX-ST in relation to the appointment of the same auditing firm based in Singapore or its member firm to audit the financial statements of the Group and its subsidiaries.

Pursuant to Rule 716 of the Listing Manual of the SGX-ST, the AC and the Board are satisfied that the appointment of Dalian Mingyike Certified Public Accountants Co., Ltd (an audit firm in the People's Republic of China) to audit the statutory financial statements of Azeus Systems (Dalian) Co., Ltd, would not compromise the standard and effectiveness of the audit of the Company. Although PwC LLP was not appointed as the statutory auditor of the subsidiary for the issuance of the local statutory financial statements, they have performed adequate audit work on the Group independently, including the subsidiary, in forming their audit opinion for the financial year ended 31 March 2016. Please refer to Note 16 under the Notes to the Financial Statements on Page 47 of this Annual Report.

Principle 13: Internal Audit

The Company has not established an internal audit function but the Company has appointed an independent qualified firm of auditors - BDO Financial Services Limited as its internal auditor to review the effectiveness of the Company's material internal controls. The AC will hire, remove, evaluate and remunerate the internal auditor.

The resulting report issued by the internal auditor is reviewed in detail by the AC in conjunction with Management. The AC will consider the effectiveness of responses / actions taken by Management on the audit recommendations and observations.

The Board shall consider expanding its internal audit resources as and when the need arises.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHT AND RESPONSIBILITIES

Principle 14: Shareholder Rights

The Company respects and upholds shareholders' rights, and tenders its communication with shareholders with care. The Board recognises and exercises its overall responsibility to shareholders, by ensuring accurate financial reporting for the Company's overall internal control framework, including financial, operational, information technology and compliance controls, risk management policies and through systems needed to safeguard the shareholders' investments and assets of the Company. The Company's articles were amended to provide for the attendance by nominees of shareholders at general meetings. The Company encourages and facilitates shareholder engagement and participation through its meetings and briefings referred to in Principle 15 (below).

Principle 15: Communication with Shareholders

The Company engages in regular, effective and fair communication with shareholders. The Board is mindful of the obligations to provide timely information and full disclosure of material information to shareholders in accordance with the statutory requirement and the Listing Manual of the SGX-ST. Information is communicated to shareholders on a timely basis. All material information and financial results are released through SGXNET.

Notice of the AGM or the Special General Meeting ("SGM"), if any, and Annual Reports are issued to all shareholders of the Company. The Notice of AGM or SGM is also advertised in newspaper and announced via SGXNET. Information on major new initiatives of the Company is also disseminated via SGXNET, news release and made available on the Company's website.

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.

While the Company has no official policy on the payment of dividends, it has consistently paid out the bulk of its profits as dividends since its listing in 2004. The amount of dividends paid each year will depend on factors that include the Group's profit level, cash position and future cash needs.

Principle 16: Conduct of Shareholder Meetings

The AGM of the Company represents the principal forum for dialogue and interaction with all shareholders. At each AGM, the Board welcomes questions from shareholders who have an opportunity to raise questions or share their views regarding the proposed resolutions and the Company's business and affairs, either informally or formally before or at the AGM.

The Chairman of the Board Committees, Directors, senior management and external auditors will be present and available at the general meeting to attend to the queries/questions from shareholders.

As a matter of policy and practice, minutes of general meetings including comments from shareholders, on all or any issues on the agenda, and responses from the Board and Management, are always available to shareholders upon request.

In line with the new listing rules to promote greater transparency in general meetings and support listed companies in enhancing their shareholders' engagement, the Company would be required to conduct its voting at general meetings by poll with effect from 1 August 2015. The Company will conduct poll voting for all resolutions to be passed at the forthcoming AGM and all future AGMs and SGMs.

Code of Business Conduct

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

CORPORATE GOVERNANCE REPORT

Dealings in Securities

The Company has adopted an internal code of practice for securities transactions by all Directors, officers and employees of the Group in compliance with Rule 1207(19) of the Listing Manual of the SGX-ST.

In compliance with the above-mentioned Rule, Directors, officers and employees of the Group have been advised not to trade in the listed securities of the Company when in possession of unpublished price-sensitive information or on short-term considerations. Directors, officers and employees are also not to trade in the Company's securities during the period commencing one month before the announcement of the Company's half year and full year financial results and ending on the day of the announcement of the relevant results. 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.

Material Contracts

There were no material contracts (including loans) of the Company or its subsidiaries involving the interests of the CEO, directors or controlling shareholders, which subsisted at the end of the financial year or have been entered into since the end of the previous financial year.

Interested Person Transactions

The Group has adopted an internal policy in respect of any transactions with interested persons and established procedures for the review and approval of such transactions.

An interested person transactions will be properly documented and submitted to the AC for half-yearly review to ensure that they are carried out on an arm's length basis, on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

There were no significant interested person transactions during the financial year.

Whistle Blowing Policy

The whistle blowing policy of the Group serves to encourage and provide a good channel to employees to report and to raise, in good faith and in confidence, concerns about possible improprieties in financial reporting, criminal activities, failure to comply with the laws and regulations, any suspected wrongdoing of fraud or other matters. A well-defined process ensures independent investigation of such matters and the assurance that employees will be protected to the extent possible from reprisals. Under the policy, employees may report their concerns to either the human resource department or even approach the Independent Directors. There were no whistle blowing incidents reported during the year.

DIRECTORS' STATEMENT

For the Financial Year ended 31 March 2016

The directors present their statement to the members together with the audited financial statements of the Group for the financial year ended 31 March 2016 and the balance sheet of the Company as at 31 March 2016.

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 25 to 65 are drawn up so as to give a true and fair view of the financial position of the Company and of the Group as at 31 March 2016 and the financial performance, changes in equity and cash flows of the Group for the financial year covered by the consolidated financial statements; 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.

Directors

The directors of the Company in office at the date of this statement are as follows:

Mr Lee Wan Lik
 Ms Lam Pui Wan
 Mr Koji Miura
 Mr Michael Yap Kiam Siew
 Mr Chan Ching Chuen

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 was 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 shares or debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director or nominee		Holdings in which director is deemed to have an interest	
	At 31.3.2016	At 1.4.2015 or date of appointment, if later	At 31.3.2016	At 1.4.2015 or date of appointment, if later
Azeus Systems Holdings Ltd.				
<u>(No. of ordinary shares)</u>				
Mr Lee Wan Lik	8,032,132 ^{(1),(3)}	80,321,326 ⁽¹⁾	15,300,000 ^{(2),(3)}	153,000,000 ⁽²⁾
Ms Lam Pui Wan	1,400,000 ^{(1),(3)}	14,000,000 ⁽¹⁾	15,300,000 ^{(2),(3)}	153,000,000 ⁽²⁾
Ultimate Holding Corporation – Mu Xia Ltd				
<u>(No. of ordinary shares)</u>				
Mr Lee Wan Lik	1,200	1,200	10,800	10,800
Ms Lam Pui Wan	10,800	10,800	1,200	1,200

DIRECTORS' STATEMENT

For the Financial Year ended 31 March 2016

Directors' interests in shares or debentures (continued)

- (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.
 - (2) Mr Lee Wan Lik and Ms Lam Pui Wan are also each deemed to be interested in these shares held by Mu Xia Ltd by virtue of them holding equity interest of 10% and 90% respectively in Mu Xia Ltd.
 - (3) The decrease in number of ordinary shares held by the respective individuals were due to the effect of share consolidation by the Company on 27 July 2015 where every ten (10) existing ordinary shares with a par value of US\$0.02 each were consolidated into one (1) new ordinary share with a par value of US\$0.20 each.
- (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 directors' interests in the ordinary shares of the Company as at 21 April 2016 were the same as those as at 31 March 2016.

Share options

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 Koji Miura
3. Mr Chan Ching Chuen

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

No option has been granted to any shareholders, key management personnel or employees of the Company and its subsidiaries or their associates since the inception of the Scheme.

Independent auditor

The independent auditor, PricewaterhouseCoopers LLP, has expressed its willingness to accept re-appointment.

On behalf of the directors

Lee Wan Lik
Director

16 June 2016

Lam Pui Wan
Director

INDEPENDENT AUDITOR'S REPORT

To the Members of Azeus Systems Holdings Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of Azeus Systems Holdings Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 25 to 65, which comprise the consolidated balance sheet of the Group and balance sheet of the Company as at 31 March 2016, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group for the financial year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the balance sheet of the Company are properly drawn up in accordance with the Singapore Financial Reporting Standards so as to give a true and fair view of the financial position of the Group and of the Company as at 31 March 2016, and of the financial performance, changes in equity and cash flows of the Group for the financial year ended on that date.

PricewaterhouseCoopers LLP
Public Accountants and Chartered Accountants

Singapore, 16 June 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Financial Year ended 31 March 2016

	Note	Group	
		2016 HK\$'000	2015 HK\$'000
Sales	4	111,788	124,980
Cost of sales	5	(74,698)	(79,756)
Gross profit		37,090	45,224
Other income	7	9,064	227
Other losses - net	8	(418)	(2,269)
Expenses			
- Selling and marketing	5	(14,211)	(6,505)
- Administrative	5	(28,695)	(29,680)
Profit before income tax		2,830	6,997
Income tax expense	9	(1,485)	(3,307)
Total profit		1,345	3,690
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation gains arising from consolidation		172	1,162
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined retirement benefits	20	480	(2,675)
Tax on actuarial (gains)/losses		(48)	265
Other comprehensive income/(loss), net of tax		604	(1,248)
Total comprehensive income		1,949	2,442
Profit attributable to:			
Equity holders of the Company		1,345	3,690
Total comprehensive income attributable to:			
Equity holders of the Company		1,949	2,442
Earnings per share for profit attributable to equity holders of the Company (HK cents per share)			
- Basic	10	4.48	12.30 (restated)
- Diluted	10	4.48	12.30 (restated)

The accompanying notes form an integral part of these financial statements.

BALANCE SHEETS

For the Financial Year ended 31 March 2016

		Group		Company	
	Note	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
ASSETS					
Current assets					
Cash and cash equivalents	11	64,562	59,617	2,383	1,591
Pledged bank deposits	11	3,789	3,775	–	–
Trade and other receivables	12	17,608	21,220	55,430	57,339
Unbilled revenue on service contracts	14	22,618	33,198	–	–
Inventories	15	349	5,809	–	–
Current income tax assets	9	2,446	40	–	–
		111,372	123,659	57,813	58,930
Non-current assets					
Refundable deposits		388	369	–	–
Investments in subsidiaries	16	–	–	50,406	50,423
Property, plant and equipment	17	980	758	–	–
Intangible assets	18	13,243	5,204	–	–
Deferred income tax assets	21	952	938	–	–
		15,563	7,269	50,406	50,423
Total assets		126,935	130,928	108,219	109,353
LIABILITIES					
Current liabilities					
Trade and other payables	19	11,177	16,935	1,264	1,498
Deferred revenue	19	3,656	–	–	–
Current income tax liabilities	9	140	228	–	–
		14,973	17,163	1,264	1,498
Non-current liabilities					
Deferred revenue	19	163	–	–	–
Provision for defined retirement benefits	20	8,838	9,063	–	–
		9,001	9,063	–	–
Total liabilities		23,974	26,226	1,264	1,498
NET ASSETS		102,961	104,702	106,955	107,855
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	22	46,800	46,800	46,800	46,800
Share premium	23	56,489	56,489	56,726	56,726
Foreign currency translation reserve		1,448	1,276	–	–
Other reserves	23	1,330	1,328	–	–
Defined retirement benefits		(6,050)	(6,482)	–	–
Retained profits	24	2,944	5,291	3,429	4,329
Total equity		102,961	104,702	106,955	107,855

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Financial Year ended 31 March 2016

← Attributable to equity holders of the Company →							
Note	Share capital HK\$'000	Share premium HK\$'000	Foreign currency translation reserve HK\$'000	Other reserves HK\$'000	Defined retirement benefits HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
2016							
Beginning of financial year	46,800	56,489	1,276	1,328	(6,482)	5,291	104,702
Profit attributable to equity holders of the Company	—	—	—	—	—	1,345	1,345
Other comprehensive income	—	—	172	—	432	—	604
Total comprehensive income for the year	—	—	172	—	432	1,345	1,949
Transfer from retained profits to other reserves	23	—	—	2	—	(2)	—
Dividend relating to 2015 paid	25	—	—	—	—	(3,690)	(3,690)
End of financial year	46,800	56,489	1,448	1,330	(6,050)	2,944	102,961
2015							
Beginning of financial year	46,800	56,489	114	1,328	(4,072)	20,231	120,890
Profit attributable to equity holders of the Company	—	—	—	—	—	3,690	3,690
Other comprehensive income/(loss)	—	—	1,162	—	(2,410)	—	(1,248)
Total comprehensive income/(loss) for the year	—	—	1,162	—	(2,410)	3,690	2,442
Dividend relating to 2014 paid	25	—	—	—	—	(18,630)	(18,630)
End of financial year	46,800	56,489	1,276	1,328	(6,482)	5,291	104,702

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Financial Year ended 31 March 2016

	Note	Group	
		2016 HK\$'000	2015 HK\$'000
Cash flows from operating activities			
Total profit		1,345	3,690
Adjustments for:			
- Income tax expense	9	1,485	3,307
- Depreciation of property, plant and equipment	17	356	423
- Amortisation of intangible assets	18	4,293	840
- Interest income	7	(28)	(155)
- Defined retirement benefits expense	20	1,495	1,157
- Unrealised currency translation gains		—	(27)
		8,946	9,235
Changes in working capital			
- Pledged bank deposits		(14)	3,465
- Trade and other receivables		3,609	(8,554)
- Unbilled revenue on service contracts		10,572	3,779
- Refundable deposits		(19)	(23)
- Inventories		5,460	(5,362)
- Trade and other payables		(5,762)	(241)
- Provision for defined retirement benefits		(1,240)	(813)
- Deferred revenue		3,819	—
Cash generated from operations		25,371	1,486
Income tax paid	9	(4,068)	(3,198)
Net cash generated from/(used in) operating activities		21,303	(1,712)
Cash flows from investing activities			
Purchases of property, plant and equipment		(594)	(477)
Additions to intangible assets		(12,332)	(6,044)
Disposal of equipment		—	6
Interest received		28	155
Net cash used in investing activities		(12,898)	(6,360)
Cash flows from financing activities			
Dividends paid to equity holders of the Company	25	(3,690)	(18,630)
Cash used in financing activities		(3,690)	(18,630)
Net increase/(decrease) in cash and cash equivalents		4,715	(26,702)
Cash and cash equivalents			
Beginning of financial year	11	59,617	85,542
Effects of currency translation on cash and cash equivalents		230	777
End of financial year	11	64,562	59,617

The accompanying notes form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

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

1. General information

Azeus Systems Holdings Ltd. (the “Company”) is 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 33rd Floor, Cambridge House, Taikoo Place, 979 King’s Road, Quarry Bay, Hong Kong.

The Company is listed on the Singapore Exchange.

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

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“FRS”) 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 certain critical accounting estimates and assumptions. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Interpretations and amendments to published standards effective in 2016

On 1 April 2015, the Group adopted the new or amended FRS and Interpretations of FRS (“INT FRS”) that are mandatory for application for the financial year. Changes to the Group’s accounting policies have been made as required, in accordance with the transitional provisions in the respective FRS and INT FRS.

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

2.2 Revenue recognition

Sales comprise the fair value of the consideration received or receivable for the sale of goods and rendering of services in the ordinary course of the Group’s activities. Sales are presented, net of value-added tax and discounts, and after eliminating sales within the Group.

The Group assesses its role as an agent or principal for each transaction and in an agency arrangement the amounts collected on behalf of the principal are excluded from revenue. The Group recognises revenue when the amount of revenue and related cost can be reliably measured, it is probable that the collectability of the related receivables is reasonably assured and when the specific criteria for each of the Group’s activities are met 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.2 Revenue recognition (continued)

(a) *Service contracts (continued)*

When the outcome of a service contract can be estimated reliably, 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. When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable.

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. Costs incurred during the financial 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 unbilled revenue on service contracts depending on their nature.

The aggregate of the costs incurred and the profit or 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 in the balance sheet. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as amount due to customers on service contracts.

(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) *Product income*

Product income are revenue from the sale of computer software in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discount will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised. Subscription revenues are recognised ratably over the contract terms beginning on the commencement date of each contract, which is the date the Group's service is made available to customers. Amounts that have been invoiced are recorded in “Trade and other receivables” and in “Deferred revenue” or “Revenue”, depending on whether the revenue recognition criteria have been met.

(e) *Interest income*

Interest income is recognised using the effective interest method.

(f) *Dividend income*

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

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.2 Revenue recognition (continued)

(f) *Dividend income* (continued)

(i) *Consolidation*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

2.3 Group accounting

(a) *Subsidiaries*

(i) *Consolidation*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on that control ceases.

In preparing the consolidated financial statements, transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated but are considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests comprise the portion of a subsidiary's net results of operations and its net assets, which is attributable to the interests that are not owned directly or indirectly by the equity holders of the Company. They are shown separately in the consolidated statement of comprehensive income, statement of changes in equity, and balance sheet. Total comprehensive income is attributed to the non-controlling interests based on their respective interests in a subsidiary, even if this results in the non-controlling interests having a deficit balance.

(ii) *Acquisitions*

The acquisition method of accounting is used to account for business combinations entered into by the Group.

The consideration transferred for the acquisition of a subsidiary or business comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes any contingent consideration arrangement and any pre-existing equity interest in the subsidiary measured at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.3 Group accounting (continued)

(a) *Subsidiaries (continued)*

(ii) *Acquisitions (continued)*

The excess of (a) the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the (b) fair value of the identifiable net assets acquired is recorded as goodwill. Please refer to the paragraph “Intangible assets - Goodwill” for the subsequent accounting policy on goodwill.

(iii) *Disposals of subsidiaries*

When a change in the Group’s ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to profit or loss or transferred directly to retained earnings if required by a specific Standard.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in profit or loss.

Please refer to the paragraph 2.6 “Investments in subsidiaries” for the accounting policy on investments in subsidiaries in the separate financial statements of the Company.

2.4 Property, plant and equipment

(a) *Measurement*

Property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(b) *Depreciation*

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their depreciable amounts over their estimated useful lives as follows:

	<u>Useful lives</u>
Leasehold improvements and furniture and fixtures	3 - 5 years
Office equipment	2 - 5 years
Computer equipment	3 years

The residual values, estimated useful lives and depreciation method of property, plant and equipment are reviewed, and adjusted as appropriate, at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.4 Property, plant and equipment (continued)

(c) *Subsequent expenditure*

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset only when it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably. All other repair and maintenance expenses are recognised in profit or loss when incurred.

(d) *Disposal*

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in profit or loss.

2.5 Intangible assets

Development of computer software

Costs directly attributable to the development of computer software are capitalised as intangible assets only when technical feasibility of the project is demonstrated, the Group has an intention and ability to complete and use the software and the costs can be measured reliably. Such costs include payroll related costs of employees directly involved in the project.

Direct expenditure including employee costs, which enhances or extends the performance of computer software beyond its specifications and which can be reliably measured, is added to the original cost of the software.

Costs associated with maintaining the computer software are recognised as an expense when incurred.

Computer software is subsequently carried at cost less accumulated amortisation and accumulated impairment losses. These costs are amortised to profit or loss using the straight-line method over their estimated useful lives of three years.

The amortisation period and amortisation method of intangible assets are reviewed at least at each balance sheet date. The effects of any revision are recognised in profit or loss when the changes arise.

2.6 Investments in subsidiaries

Investments in subsidiaries are carried at cost less accumulated impairment losses in the Company's balance sheet. On disposal of investments in subsidiaries, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

Dividends received from subsidiaries are recognised in profit or loss in the separate financial statements of the company.

The receipt of a dividend from a subsidiary is an indicator of impairment of the relevant investment when:

- (a) the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets, including associated goodwill; or
- (b) the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.7 Impairment of non-financial assets

Property, plant and equipment
Investments in subsidiaries
Intangible assets

Property, plant and equipment, investments in subsidiaries and intangible assets are tested for impairment whenever there is any objective evidence or indication that these assets may be impaired.

For the purpose of impairment testing, the recoverable amount (i.e. the higher of the fair value less cost to sell and the value-in-use) is determined on an individual asset basis unless the asset does not generate cash inflows that are largely independent of those from other assets. If this is the case, the recoverable amount is determined for the CGU to which the asset belongs.

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 difference between the carrying amount and recoverable amount is recognised as an impairment loss in profit or loss.

An impairment loss for an asset other than goodwill is reversed only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of this asset is increased to its revised recoverable amount, provided that this amount does not exceed the carrying amount that would have been determined (net of any accumulated amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

A reversal of impairment loss for an asset is recognised in profit or loss.

2.8 Financial assets

(a) *Classification*

The Group classified its financial assets as loans and receivables. The classification depends on the nature of the asset and the purpose for which the assets were acquired. Management determines the classification of its financial assets at its initial recognition.

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 are presented as current assets, except for those expected to be realised later than 12 months after the balance sheet date which are presented as non-current assets. Loans and receivables are presented as "trade and other receivables" (Note 12), "cash and cash equivalents" (Note 11), "refundable deposits" and "unbilled revenue on service contracts" (Note 14) on the balance sheet.

(b) *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. On disposal of a financial asset, the difference between the carrying amount and the sale proceeds is recognised in profit or loss. Any amount previously recognised in other comprehensive income relating to that asset is reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(c) *Initial measurement*

Financial assets are initially recognised at fair value plus transaction costs.

(d) *Subsequent measurement*

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(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 and recognises an allowance for impairment when such evidence exists.

(i) *Loans and receivables*

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or significant delay in payments are objective evidence that these financial assets are impaired.

The carrying amount of these assets is reduced through the use of an impairment allowance account which is calculated as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. When the asset becomes uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognised against the same line item in profit or loss.

The impairment allowance is reduced through profit or loss in a subsequent period when the amount of impairment loss decreases and the related decrease can be objectively measured. The carrying amount of the asset previously impaired is increased to the extent that the new carrying amount does not exceed the amortised cost had no impairment been recognised in prior periods.

2.9 Inventories

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

2.10 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. They are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.11 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.12 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements, if any. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

2.13 Deferred revenue

Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from subscription services and are recognised as revenue when the revenue recognition criteria are met. The Group generally invoices customers in annual installments. Deferred revenue that will be recognised during the succeeding 12 months period is recorded as current deferred revenue while more than 12 months is recorded as non-current.

2.14 Fair value estimation of financial assets and liabilities

The fair values of financial instruments traded in active markets (such as exchange-traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of financial instruments that are not traded in an active market are 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. Where appropriate, quoted market prices or dealer quotes for similar instruments are used. Valuation techniques, such as discounted cash flow analyses, are also used to determine the fair values of the financial instruments.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

2.15 Operating lease payments

Leases of assets where substantially all risks and rewards incidental to ownership are retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors) are recognised in profit or loss on a straight-line basis over the period of the lease.

2.16 Income taxes

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.16 Income taxes (continued)

Deferred income tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements except when the deferred income tax arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and affects neither accounting nor taxable profit or loss at the time of the transaction.

A deferred income tax liability is recognised on temporary differences arising on investments in subsidiaries, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred income tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and tax losses can be utilised.

Deferred income tax is measured:

- (i) at the tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date; and
- (ii) based on the tax consequence that will follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amounts of its assets and liabilities.

Current and deferred income taxes are recognised as income or expense in profit or loss, except to the extent that the tax arises from a business combination or a transaction which is recognised directly in equity. Deferred tax arising from a business combination is adjusted against goodwill on acquisition.

2.17 Employee compensation

Employee benefits are recognised as an expense, unless the cost qualifies to be capitalised as an asset.

(a) *Employee leave entitlements*

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

(b) *Pension benefits*

The Group operates both defined contribution retirement benefits and a non-contributory defined benefit plan.

Defined contribution retirement benefits

The Group operates a defined contribution retirement scheme under the Mandatory Provident Fund Scheme (the “MPF Scheme”) in Hong Kong. The scheme is funded through payments to trustee administered funds. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group has a defined contribution scheme (“other scheme”) in accordance with the local conditions and practices in the province of the People’s Republic of China in which they operate. The defined contribution scheme is a pension scheme under which the Group pays fixed contributions into a separate fund and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The Group’s contributions to the other scheme are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.17 Employee compensation (continued)

(b) *Pension benefits (continued)*

Non-contributory defined benefit plan

The Group has a non-contributory defined retirement benefits plan for the employees of its subsidiary in accordance with the local conditions and practices in the Philippines. The plan is generally funded through payments to trustee-administered funds governed by local regulations and practices and approved by the local management. A defined retirement benefits 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 recognised in the balance sheet in respect to the defined retirements benefits pension plan is the present value of the defined retirements benefits obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined retirements benefits obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined retirements benefits obligation is determined by discounting the estimated future cash outflows using the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and have terms to maturity approximating to the terms of the related retirement obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period when they arise.

Past service costs are recognised immediately in profit or loss.

(c) *Share grant*

A controlling shareholder has implemented a share grant incentive scheme for certain key employees. Under this incentive, the controlling shareholder will transfer ordinary shares from his personal shareholding to such employees from time to time. The number of shares to be transferred and the terms of such transfers will be in his absolute discretion, and entitled employees will be providing no, nominal or discounted consideration for such transfers.

The fair value of the employee services received in exchange for the grant of the shares from the controlling shareholder is recognised as an expense in profit or loss with a corresponding increase in the reserve on the date of grant. The fair value of the employee services received is determined from the quoted market value of the shares granted in consideration of the services performed at the date of the grant. The shares vest immediately upon being granted.

(d) *Long service payments*

The Group's employees have to complete a required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.17 Employee compensation (continued)

(e) *Bonus plans*

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(f) *Termination benefits*

Termination benefits are those benefits which 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.

2.18 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 ("functional currency"). The financial statements are presented in Hong Kong Dollar, which is the functional currency of the Company.

(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 at the dates of the transactions. Currency exchange differences resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing rates at the balance sheet date are recognised in profit or loss.

Non-monetary items measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined.

(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 are translated at the closing exchange rates at reporting date;
- (ii) income and expenses are translated at average exchange rates (unless the 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 currency translation differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. These currency translation differences are reclassified to profit or loss on disposal or partial disposal of the entity giving rise to such reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

2. Significant accounting policies (continued)

2.18 Currency translation (continued)

(c) *Translation of Group entities' financial statements (continued)*

Goodwill and fair value adjustments arising on the acquisition of foreign operations are treated as assets and liabilities of the foreign operations and translated at the closing rates at the reporting date. For acquisitions prior to 1 January 2005, the goodwill and fair value adjustments are translated at the exchange rates at the dates of acquisition.

2.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the executive committee whose members are responsible for allocating resources and assessing performance of the operating segments.

2.20 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, and deposits with financial institutions which are subject to an insignificant risk of change in value. For cash subjected to restriction, assessment is made on the economic substance of the restriction and whether they meet the definition of cash and cash equivalents.

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares are deducted against the share capital account.

2.22 Dividends to Company's equityholders

Dividends to the Company's equityholders are recognised when the dividends are approved for payments.

3. Critical accounting estimates and judgements

Estimates, assumptions 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.

(a) Revenue recognition

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

Significant assumptions are required to estimate total contract costs and the recoverable variation works that affect the stage of completion and the contract revenue respectively. In making these estimates, management has relied on past experience and the work of specialists.

If the estimated total costs for the contract increase/decrease by 10% from management's estimates, the Group's profit will decrease and increase by approximately HK\$5.3 million and HK\$6.2 million respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

3. Critical accounting estimates and judgements (continued)

(b) Defined retirement benefits

The determination of the Group's pension benefit obligation and retirement benefits are dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, expected return on plan assets and rate of compensation increase.

The determination of the obligation and cost for retirement benefits is dependent on the selection of certain assumptions used by the actuaries in calculating such amounts. Those assumptions are described in Note 20, and include among others, discount rate and rate of compensation increase. In accordance with FRS, actual results that differ from the Group's assumptions are accumulated and amortised over future periods and therefore, generally affect the recognised expenses and recorded obligation in such future periods. While it is believed that the Group's assumptions are reasonable and appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the Group's retirement benefit cost and obligation.

The possible effects of sensitivities surrounding actuarial assumptions at the financial reporting date are presented in Note 20. Other key assumptions for retirement benefit obligation are based on current market conditions.

(c) Impairment of intangible assets

Determining whether intangible assets are impaired requires an estimation of the value in use of those intangible assets. The value in use calculation requires the Group to estimate the future cash flows expected from the cash-generating units ("CGUs") and an appropriate discount rate in order to calculate the present value of the future cash flows.

During the financial year, management carried out an impairment review of the recoverable amounts of the intangible assets relating to Azeus Products and is satisfied that there is no impairment. The carrying amounts of the intangible assets are disclosed in Note 18.

The recoverable amount of the software has been determined based on their value-in-use with the following key assumptions:

- (a) A projected cash flow over three years is computed using average revenue growth rate of 216% per annum. Management is of the opinion that the projected cash flows projection period of three years is reasonable as there is no indication that the demand for the software will cease within three years.
- (b) A discount rate of 12% per annum is used.

If the average revenue growth rate had been lower than management's estimates by 100% per annum, it would not result in the carrying amount exceeding the recoverable amount.

If the discount rate applied to the discounted cash flows for the software had been 3% higher than management's estimates (for example, 15% instead of 12%), it would not result in the carrying amount exceeding the recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

4. Sales

	Group	
	2016	2015
	HK\$'000	HK\$'000
Professional IT Services		
IT Services, including sales of project hardware and software	41,696	54,025
Maintenance and support services	62,702	54,354
Business process outsourcing	–	8,661
	104,398	117,040
Azeus Products Sales		
	7,390	7,940
	111,788	124,980

5. Expenses by nature

	Group	
	2016	2015
	HK\$'000	HK\$'000
Purchases of project hardware and software products (Note 15)	654	6,419
Depreciation of property, plant and equipment (Note 17)	356	423
Amortisation of intangible assets (Note 18)	4,293	840
Employee compensation (Note 6)	81,726	87,562
Rental expense on operating leases	5,944	6,020
Legal and professional fees	1,776	2,301
Repairs and maintenance expenses	9,531	8,072
Other expenses	7,864	9,762
Change in inventories (Note 15)	5,460	(5,458)
Total cost of sales, selling and marketing and administrative expenses	117,604	115,941

6. Employee compensation

	Group	
	2016	2015
	HK\$'000	HK\$'000
Wages and salaries	74,780	80,957
Employer's contribution to defined contribution plans	5,481	5,793
Defined retirement benefits expenses (Note 20)	1,495	1,157
Recovery of provision for long-service leave payment	(40)	(515)
Provision of unutilised leave	10	170
	81,726	87,562

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

7. Other income

	Group	
	2016	2015
	HK\$'000	HK\$'000
Arbitration legal fee compensation (Note)	8,750	—
Interest income	28	155
Sundry income	286	72
	9,064	227

Note:

The Group received a settlement of HK\$40.9 million in 2013 for a 2011 dispute with a customer. During the year ended 31 March 2016, the Group received HK\$8.75 million as compensation for legal costs associated with this arbitration.

8. Other losses - net

	Group	
	2016	2015
	HK\$'000	HK\$'000
Currency translation loss - net	(418)	(2,269)

9. Income taxes

(a) Income tax expense

	Group	
	2016	2015
	HK\$'000	HK\$'000
Tax expense/(credit) attributable to profit is made up of:		
- Current income tax	1,353	3,414
- Deferred income tax (Note 21)	(86)	(59)
	1,267	3,355
Under/(over) provision in prior financial years		
- Current income tax	218	(48)
	1,485	3,307

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

9. Income taxes (continued)

(a) Income tax expense (continued)

The tax expense on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit or loss of the consolidated companies is as explained below:

	Group	
	2016 HK\$'000	2015 HK\$'000
Profit before tax	2,830	6,997
Tax calculated at domestic tax rates applicable to profits in the respective countries	(969)	2,035
Effects of		
- expenses not deductible for tax purposes	75	209
- income not subject to tax	(237)	(24)
- income tax losses not recognised	2,769	862
- temporary differences not recognised	(43)	396
- under/(over) provision of tax	218	(48)
- other	(328)	(123)
Tax charge	1,485	3,307

The weighted average applicable tax rate was 16.3% (2015: 16.4%).

(b) Movements in current income tax assets - net

	Group	
	2016 HK\$'000	2015 HK\$'000
Beginning of financial year	188	20
Currency translation difference	3	—
Under/(over) provision in prior financial years	218	(48)
Income tax paid	(4,068)	(3,198)
Tax expense	1,353	3,414
End of financial year	(2,306)	188

Included in the "income tax paid" balance is income tax recoverable amount of HK\$2,446,000 (2015: HK\$40,000).

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

10. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year.

	Group	
	2016	2015
Net profit attributable to equity holders of the Company (HK\$'000)	1,343	3,690
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	30,000	30,000 (restated)
Basic earnings per share (HK cents per share)	4.48	12.30 (restated)
Diluted earnings per share (HK cents per share)	4.48	12.30 (restated)

Diluted earnings per share is the same as basic earnings per share as there are no dilutive potential ordinary shares as at 31 March 2016 and 31 March 2015.

During the year, the Company effected share consolidation of every ten existing ordinary shares with a par value of US\$0.02 each for one new ordinary share with a par value of US\$0.20 each (Note 22). The weighted average number of ordinary shares has been restated for the proportionate change in the number of ordinary shares outstanding as if the share consolidation had occurred on 1 April 2014.

11. Cash and bank balances

	Group		Company	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Cash and cash equivalents	64,562	59,617	2,383	1,591
Pledged bank deposits (Note)	3,789	3,775	–	–
	68,351	63,392	2,383	1,591

Note:

As at 31 March 2016, included in the cash and cash equivalents were bank deposits amounting to HK\$3,789,000 (2015: HK\$3,775,000) which were not freely available for use by the Group as they have been pledged as securities for the performance bonds and the bank guarantees issued by the banks on behalf of the Group.

Short-term bank deposits at the balance sheet date had an average maturity of 88 days (2015: 41 days) from the end of the financial year with the following weighted average effective interest rates:

	Group	
	2016 %	2015 %
Hong Kong Dollar	0.31	0.40

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

12. Trade and other receivables

	Group		Company	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Trade receivables - Non-related parties	6,506	11,870	–	–
Amount due from subsidiaries - Non-trade (Note 13)	–	–	54,854	57,073
Other receivables and deposits	5,464	5,133	–	–
Prepayments	5,638	4,217	576	266
	17,608	21,220	55,430	57,339

13. Amounts due from/to subsidiaries

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

14. Unbilled revenue on service contracts

	Group	
	2016 HK\$'000	2015 HK\$'000
Aggregate contract costs incurred and profits recognised (less losses recognised) to date	116,024	46,836
Currency translation difference	196	–
Less: Progress billings	(93,031)	(13,067)
	23,189	33,769
Less: Provision for doubtful debt on unbilled revenue on service contracts	(571)	(571)
	22,618	33,198

15. Inventories

	Group	
	2016 HK\$'000	2015 HK\$'000
Project hardware and software	349	5,809

The cost of inventories used for IT services rendered during the year recognised as an expense and included in “cost of sales” amounts to HK\$6,114,000 (2015: HK\$961,000) (Note 5).

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

16. Investments in subsidiaries

	Company	
	2016 HK\$'000	2015 HK\$'000
<i>Equity investments at cost</i>		
Beginning of financial year	54,509	54,509
<i>Allowance for impairment</i>		
Beginning of financial year	(4,086)	(4,066)
Allowance made	(17)	(20)
	(4,103)	(4,086)
End of financial year	50,406	50,423

An allowance of impairment of HK\$17,000 (2015: HK\$20,000) was recognised for a dormant subsidiary based on its recoverable amounts, determined by reference to the net amount receivable from the realisation of the subsidiary's assets and the settlement of its liabilities at the end of the financial year.

Details of the subsidiaries are as follows:

Name of subsidiary	Country of business/ incorporation	Principal activities	Equity holding	
			2016	2015
			%	%
<u>Held by the Company</u>				
Azeus Systems Limited ^(a)	Hong Kong	IT consulting, project management and systems implementation	100	100
Azeus Systems Manila BVI Ltd. ^(b)	British Virgin Islands	Investment holding	100	100
Azeus UK Limited ^(c)	United Kingdom	Provision of IT services	100	100
BIGontheNet Pte Ltd ^(b)	Singapore	Dormant	100	100
Azeus Pty Ltd ^(b)	Australia	Dormant	100	100
<u>Held by the subsidiaries</u>				
Azeus Systems Philippines, Inc. ^(d)	Philippines	Dormant	100	100
Azeus Systems Philippines Limited ^(e)	Philippines	Software development	100	100
Azeus Systems (Dalian) Co., Ltd ^(f)	People's Republic of China	Software development	100	100

(a) Audited by PricewaterhouseCoopers, Hong Kong.

(b) Not required to be audited under the laws of the country of incorporation.

(c) Audited by Wellden Turnbull LLP, United Kingdom.

(d) Audited by Isla Lipana & Co., the Philippines member firm of PricewaterhouseCoopers International Limited.

(e) Azeus Systems Philippines Limited is a branch of Azeus Systems Manila BVI Ltd., registered in the Philippines, and is audited by Isla Lipana & Co., the Philippines member firm of PricewaterhouseCoopers International Limited.

(f) Financial year ends on 31 December and audited by Dalian Mingyike Certified Public Accountants Co., Ltd, an audit firm in the People's Republic of China ("PRC"). There were no significant transactions or events occurring during the period 1 January 2016 to 31 March 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

17. Property, plant and equipment

Group	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Computer equipment HK\$'000	Total HK\$'000
2016					
Cost					
Beginning of financial year	1,025	1,500	322	3,136	5,983
Additions	–	2	274	318	594
Currency translation differences	(26)	(17)	(8)	(20)	(71)
End of financial year	999	1,485	588	3,434	6,506
Accumulated depreciation					
Beginning of financial year	691	1,461	245	2,828	5,225
Depreciation charge (Note 5)	89	15	45	207	356
Currency translation differences	(17)	(15)	(6)	(17)	(55)
End of financial year	763	1,461	284	3,018	5,526
Net book value					
End of financial year	236	24	304	416	980
2015					
Cost					
Beginning of financial year	720	1,492	286	3,023	5,521
Additions	305	8	36	128	477
Disposals	–	–	–	(10)	(10)
Currency translation differences	–	–	–	(5)	(5)
End of financial year	1,025	1,500	322	3,136	5,983
Accumulated depreciation					
Beginning of financial year	606	1,427	207	2,572	4,812
Depreciation charge (Note 5)	85	34	38	266	423
Disposals	–	–	–	(6)	(6)
Currency translation differences	–	–	–	(4)	(4)
End of financial year	691	1,461	245	2,828	5,225
Net book value					
End of financial year	334	39	77	308	758

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

18. Intangible assets

Azeus Products - Computer software

	Group	
	2016 HK\$'000	2015 HK\$'000
Cost		
Beginning of financial year	6,044	–
Additions	12,332	6,044
End of financial year	18,376	6,044
Accumulated amortisation		
Beginning of financial year	840	–
Amortisation charge	4,293	840
End of financial year	5,133	840
Net book value	13,243	5,204

Amortisation expense included in the statement of comprehensive income is analysed as follows:

	Group	
	2016 HK\$'000	2015 HK\$'000
Cost of sales (Note 5)	4,293	840

Intangible asset relates to the development of two proprietary computer software (Azeus Convene and AzeusCare).

19. Trade and other payables and deferred revenue

	Group		Company	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
<i>Current</i>				
Trade payables -non-related parties	2,001	1,344	–	–
Advances received from customers	4,997	6,730	–	–
Amount due to a subsidiary - non-trade (Note 13)	–	–	104	104
Other accruals for operating expenses	4,179	8,861	1,160	1,394
Deferred revenue	3,656	–	–	–
	14,833	16,935	1,264	1,498
<i>Non-current</i>				
Deferred revenue	163	–	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

20. Provision for defined retirement benefits

The Group has a non-contributory defined retirement benefits plan (the “Plan”) covering substantially its qualified employees in the Philippines. The fund is administered by a trustee bank, governed by local regulations and practices and approved by the local management. 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 amounts recognised in the balance sheets are determined as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
Present value of funded benefit obligations	15,509	14,848
Fair value of plan assets	(6,671)	(5,785)
Retirement benefit obligation	8,838	9,063

The movements in the retirement benefit obligation are as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
Beginning of financial year	9,063	6,071
Currency translation differences	(241)	(27)
Charged to profit or loss (Note 6)	1,495	1,157
Remeasurements:		
- Losses from return on plan assets	330	13
- Losses from change in financial assumptions	734	59
- Experience (gains)/losses	(1,544)	2,603
(Credited)/debited to other comprehensive income	(480)	2,675
Contributions paid	(999)	(813)
End of financial year	8,838	9,063

The movements in the present value of retirement benefit obligation are as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
Beginning of financial year	14,848	10,756
Currency translation differences	(389)	(37)
Interest cost	861	654
Current service cost	999	813
Actuarial (losses)/gains	(810)	2,662
End of financial year	15,509	14,848

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

20. Provision for defined retirement benefits (continued)

The movements in the fair value of plan assets are as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
Beginning of financial year	5,785	4,685
Currency translation differences	(148)	(10)
Interest income	365	310
Contributions paid	999	813
Actuarial losses	(330)	(13)
End of financial year	6,671	5,785

The Group's retirement plan assets consist of:

	Group	
	2016	2015
Debt securities	52%	79%
Cash and cash equivalents	44%	13%
Others	4%	8%
	100%	100%

Investment in debt securities consists of investment in corporate bonds, retail treasury bonds issued by the Philippines government through the Bureau of Treasury, unsecured subordinated debts and long term notes on time deposits.

The amounts recognised in profit or loss are as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
Current service cost	999	813
Interest cost	861	654
Interest income	(365)	(310)
Included in "Employee compensation" (Note 6)	1,495	1,157

The principal actuarial assumptions used were as follows:

	Group	
	2016	2015
Discount rate	6%	6%
Future salary increases	5%	5%
Average remaining working life in years	28.9	29.2
Average years of past service	8.9	8.6

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

20. Provision for defined retirement benefits (continued)

The discount rate assumption is based on the spot yield curve calculated from the PDEx (PDSI/T-R2) market yields by stripping the coupons from government bonds to create virtual zero coupon bonds as of 31 March 2016 and considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by 18%	Increase by 23%
Salary growth rate	1%	Increase by 22%	Decrease by 18%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method has been applied as when calculating the retirement benefit obligation recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

21. Deferred income taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts, determined after appropriate offsetting, are shown on the balance sheets as follows:

	Group	
	2016 HK\$'000	2015 HK\$'000
Deferred income tax assets:		
- to be recovered within one year	(74)	(64)
- to be recovered after one year	(878)	(874)
	(952)	(938)

Movement in deferred income tax account is as follows:

	Group	
	2016 HK\$'000	2015 HK\$'000
Beginning of financial year	(938)	(615)
Actuarial gains/(losses) on defined retirement benefits	48	(265)
Currency translation differences	24	1
Tax credited to profit or loss (Note 9)	(86)	(59)
End of financial year	(952)	(938)

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

21. Deferred income taxes (continued)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK\$30,622,322 (2015: HK\$17,793,290) at the balance sheet date which can be carried forward and used to offset against future taxable income subject to meeting certain statutory requirements by the company with unrecognised tax losses in its country of incorporation. The tax losses have no expiry date.

The movement in deferred income tax assets is as follows:

Group

Deferred income tax assets

	Retirement benefits HK\$'000	Other HK\$'000	Total HK\$'000
2016			
Beginning of financial year	(871)	(67)	(938)
Actuarial gains on defined retirement benefits	48	—	48
Currency translation differences	59	(35)	24
Credited to profit or loss	(86)	—	(86)
End of financial year	(850)	(102)	(952)
2015			
Beginning of financial year	(572)	(43)	(615)
Actuarial losses on defined retirement benefits	(265)	—	(265)
Currency translation differences	25	(24)	1
Credited to profit or loss	(59)	—	(59)
End of financial year	(871)	(67)	(938)

22. Share capital

	No. of ordinary shares		Amount	
	Issued share capital 2016 '000	Issued share capital 2015 '000	Share capital 2016 HK\$'000	Share capital 2015 HK\$'000
<u>Group and Company</u>				
Beginning of financial year	300,000	300,000	46,800	46,800
Share consolidation	(270,000)	—	—	—
End of financial year	30,000	300,000	46,800	46,800

All issued ordinary shares are fully paid. The par value is US\$0.20 (FY2015: US\$0.02) per share.

During the year, the Company effected share consolidation of every ten existing ordinary shares with a par value of US\$0.02 each for one new ordinary share with a par value of US\$0.20 each after obtaining approval from the shareholders at the special general meeting held on 9 July 2015. The share consolidation took effect on 27 July 2015 and the issued share capital on that date amounted to 29,999,993 ordinary shares with a par value of US\$0.20 each.

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For the Financial Year ended 31 March 2016

23. Share premium and other reserves

	Group		Company	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Share premium	56,489	56,489	56,726	56,726
Employee share-based payment reserve	1,328	1,328	—	—
Statutory reserve	2	—	—	—
	57,819	57,817	56,726	56,726

Share premium pertains to the premium paid by shareholders which is above the par value. Lower share premium at the Group level due to the adjustments arising from the restructuring exercise during FY2005 which represents 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.

Employee share-based payment reserve relates to the “Azeus Employee Share Option Scheme” (the “Scheme”) which was approved by the shareholders of the company. Further details can be found on Page 23 of the Annual Report.

Statutory reserve represents the appropriations made in accordance with the PRC laws for PRC subsidiary. This reserve is made out of profit after tax as recorded in the statutory financial statements. The appropriation to the reserve shall be no less than 10% of net profit and appropriation may cease when the fund reaches 50% of the registered capital.

24. Retained profits

Movement in retained profits for the Company is as follows:

	Company	
	2016 HK\$'000	2015 HK\$'000
Beginning of financial year	4,329	20,363
Net profit	2,790	2,596
Dividends paid (Note 25)	(3,690)	(18,630)
End of financial year	3,429	4,329

25. Dividends

	Group and Company	
	2016 HK\$'000	2015 HK\$'000
<i>Ordinary dividends paid</i>		
Final dividend paid in respect of the previous financial year of HK1.23 cents (2015: HK6.21 cents) per share (Note 24)	3,690	18,630

At the Annual General Meeting on 8 July 2016, a final dividend of HK4.47 cents per share amounting to a total of HK\$1,341,000 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 for the financial year ending 31 March 2017.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

26. Contingent liabilities

At 31st March 2016, there were contingent liabilities in respect of performance bonds amounting to HK\$3,696,262 (2015: HK\$3,696,262) issued by the banks on behalf of the Group.

27. Commitments

Operating lease commitments

The Group leases office premises from non-related parties under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

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

	Group	
	2016 HK\$'000	2015 HK\$'000
Not later than one year	3,658	5,351
Between one and five years	2,195	4,865
	5,853	10,216

28. Financial risk management

Financial risk factors

The Group's activities expose it to market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management strategy seeks to minimise adverse effects from the unpredictability of financial markets on the Group's financial performance.

The Board of Directors is responsible for setting the objectives and underlying principles of financial risk management for the Group. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

There has been no change to the Group's exposure to these financial risks or the manner in which it manages and measures the risk since the previous financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

28. Financial risk management (continued)

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

(a) Market risk

(i) *Currency risk*

The Group operates in United States of America ("USA"), Asia and Europe with dominant operations in Hong Kong and the United Kingdom. Entities in the Group regularly transact in currencies other than their respective functional currencies ("foreign currencies").

Currency risk arises within entities in the Group when transactions are denominated in foreign currencies such as the Hong Kong Dollar ("HKD"), United States Dollar ("USD"), Singapore Dollar ("SGD") and Great Britain Pound ("GBP"). In addition, the Group is exposed to currency translation risk on the net assets/(liabilities) in foreign operations.

The Group manages currency risk by matching assets and liabilities in the same currency denomination and supplemented with appropriate financial instruments where necessary.

The Group's currency exposure based on the information provided to key management is as follows:

	HKD HK\$'000	USD HK\$'000	SGD HK\$'000	GBP HK\$'000	Others HK\$'000	Total HK\$'000
2016						
Financial assets						
Cash and cash equivalents	54,013	2,950	2,335	5,214	3,839	68,351
Unbilled revenue on service contracts	20,352	—	—	2,266	—	22,618
Trade and other receivables	3,963	820	—	4,900	2,287	11,970
Refundable deposits	—	—	—	—	388	388
Receivables from subsidiaries	56,463	—	—	31,373	931	88,767
	134,791	3,770	2,335	43,753	7,445	192,094
Financial liabilities						
Other financial liabilities	(1,722)	(954)	(1,035)	(1,029)	(1,440)	(6,180)
Payables to subsidiaries	(56,463)	—	—	(31,373)	(931)	(88,767)
	(58,185)	(954)	(1,035)	(32,402)	(2,371)	(94,947)
Net financial assets	76,606	2,816	1,300	11,351	5,074	97,147
Less: Net financial assets/ (liabilities) denominated in the respective entities' functional currencies	(74,829)	—	—	20,155	(3,645)	(58,319)
Currency exposure on financial assets denominated in the respective entities' functional currencies	1,777	2,816	1,300	31,506	1,429	38,828

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

28. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

	HKD HK\$'000	USD HK\$'000	SGD HK\$'000	GBP HK\$'000	Others HK\$'000	Total HK\$'000
2015						
Financial assets						
Cash and cash equivalents	47,112	2,226	1,537	7,535	4,982	63,392
Unbilled revenue on service contracts	32,992	206	—	—	—	33,198
Trade and other receivables	11,279	626	—	2,547	2,551	17,003
Refundable deposits	—	—	—	—	369	369
Receivables from subsidiaries	58,857	2,106	227	18,640	1,487	81,317
	150,240	5,164	1,764	28,722	9,389	195,279
Financial liabilities						
Other financial liabilities	(7,168)	—	(1,169)	(720)	(1,148)	(10,205)
Payables to subsidiaries	(58,857)	(2,106)	(227)	(18,640)	(1,487)	(81,317)
	(66,025)	(2,106)	(1,396)	(19,360)	(2,635)	(91,522)
Net financial assets	84,215	3,058	368	9,362	6,754	103,757
Less: Net financial assets/ (liabilities) denominated in the respective entities' functional currencies	(83,411)	—	227	9,374	(4,892)	(78,702)
Currency exposure on financial assets denominated in the respective entities' functional currencies	804	3,058	595	18,736	1,862	25,055

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

28. Financial risk management (continued)

(a) Market risk (continued)

(i) Currency risk (continued)

The Company's currency exposure based on the information provided to key management is as follows:

	HKD HK\$'000	USD HK\$'000	SGD HK\$'000	GBP HK\$'000	Total HK\$'000
2016					
Financial assets					
Cash and cash equivalents	13	39	2,219	111	2,382
Trade and other receivables	54,854	–	–	–	54,854
	54,867	39	2,219	111	57,236
Financial liabilities					
Other financial liabilities	(229)	–	(1,035)	–	(1,264)
	(229)	–	(1,035)	–	(1,264)
Net financial assets	54,638	39	1,184	111	55,972
Less: Net financial assets denominated in the Company's functional currency	(54,638)	–	–	–	(54,638)
Currency exposure on financial assets net of those denominated in the Company's functional currency	–	39	1,184	111	1,334
	HKD HK\$'000	USD HK\$'000	SGD HK\$'000	GBP HK\$'000	Total HK\$'000
2015					
Financial assets					
Cash and cash equivalents	14	39	1,423	115	1,591
Trade and other receivables	57,073	–	–	–	57,073
	57,087	39	1,423	115	58,664
Financial liabilities					
Other financial liabilities	(329)	–	(1,169)	–	(1,498)
	(329)	–	(1,169)	–	(1,498)
Net financial assets	56,758	39	254	115	57,166
Less: Net financial assets denominated in the Company's functional currency	(56,758)	–	–	–	(56,758)
Currency exposure on financial assets net of those denominated in the Company's functional currency	–	39	254	115	408

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

28. Financial risk management (continued)

(a) Market risk (continued)

(i) *Currency risk (continued)*

As at 31 March 2016 and 2015, the net financial assets denominated in a currency other than the respective functional currencies of the Group entities are mainly in USD and GBP. Since HKD is pegged to USD, no significant change in the net financial assets/(liabilities) position is expected from any changes on the exchange rate between the HKD and USD at the Group and Company level.

At 31 March 2016, if the GBP had strengthened/weakened by 7% (2015: 6%) against the HKD with all other variables including tax rate being held constant, the other comprehensive income of the Group would have been higher/lower by HK\$2.0 million (2015: HK\$1.0 million) as a result of currency translation gains/losses on the remaining GBP-denominated financial instruments.

Management is of the view that the impact of the sensitivity analysis of SGD and GBP against the HKD is not significant at the Company level.

(ii) *Cash flow and fair value interest rate risks*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Group's and the Company's exposure to market risk for changes in interest rates relates primarily to the Group's cash and cash equivalents placed with banks and financial institutions in Hong Kong and Singapore.

Most of the interest bearing deposits placed with the banks are short-term in nature (Note 11). Variation in short-term interest rate is not expected to have a material impact on the results of the Group.

The sensitivity analysis below have been determined based on the exposure to interest rates for cash and cash equivalents placed with banks and financial institutions in Hong Kong at the balance sheet date. A 0.5% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 0.5% higher/lower with all other variables held constant, the Group's profit for the year ended 31 March 2016 would increase/decrease by approximately HK\$16,000 (2015: increase/decrease by approximately HK\$21,000). No analysis is prepared at the Company level as the sensitivity is immaterial.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The major classes of financial assets of the Group and of the Company are bank deposits and trade and other receivables. The Group adopts the policy of only dealing with creditworthy counterparties to mitigate the risk of financial losses from default.

Credit risk is managed through the application of credit approvals, credit limits and monitoring procedures. Where appropriate, the Group obtains collateral from its customers. Cash terms, advance payments and letter of credits are required for customers of lower credit standing. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The Group's trade receivables comprise 6 debtors (2015: 7 debtors) with both United Kingdom and Hong Kong's government sector collectively represented 47% (2015: 83%) of trade receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

28. Financial risk management (continued)

(b) Credit risk (continued)

As at year-end, the Group does not hold any collateral. The maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet.

There is no credit risk exposure at the Company level.

The credit risk for trade receivables at the Group, based on the information provided to key management is as follows:

	Group	
	2016 HK\$'000	2015 HK\$'000
<u>By geographical areas</u>		
Hong Kong	877	8,505
United Kingdom	4,757	2,484
Other countries	872	881
	6,506	11,870
<u>By types of customers</u>		
Non-related parties		
- Public sector	3,087	9,839
- Other companies	3,419	2,031
	6,506	11,870

(i) Financial assets that are neither past due nor impaired

Bank deposits that are neither past due nor impaired are mainly deposits with banks with high credit-ratings assigned by international credit-rating agencies. Trade receivables that are neither past due nor impaired are substantially companies with a good collection track record with the Group.

The Group's trade receivables not past due does not include receivables that would have been past due or impaired if the terms were not re-negotiated during the financial year. Other financial assets that are neither past due nor impaired consist primarily of advances to employees that are collected through salary deductions and other receivable in which the Group has the right to collect in the next twelve months.

(ii) Financial assets that are past due and/or impaired

There is no other class of financial assets that is past due and/or impaired except for trade receivables.

The age analysis of trade receivables past due but not impaired is as follows:

	Group	
	2016 HK\$'000	2015 HK\$'000
Past due < 3 months	3,639	3,131
Past due over 3 months	1,246	—
	4,885	3,131

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

28. Financial risk management (continued)

(b) Credit risk (continued)

(ii) *Financial assets that are past due and/or impaired (continued)*

The carrying amount of trade receivables individually determined to be impaired and the movement in the related allowance for impairment are as follows:

	Group	
	2016 HK\$'000	2015 HK\$'000
Past due from 0 to 3 months	334	321
Past due over 3 months	998	1,670
	1,332	1,991
Less: Allowance for impairment	(1,332)	(1,991)
	–	–
Beginning of financial year	(1,991)	(738)
Allowance made	(1,332)	(1,253)
End of financial year	(3,323)	(1,991)

(c) Liquidity risk

Liquidity risk is the risk that the Group or the Company will encounter difficulty in meeting financial obligations due to shortage of fund. The Group's and the Company's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group relies on its internal working capital to fund most of its operating and investing activities. The liquidity risk of the Group is minimal as it maintains sufficient liquid funds to meet their normal operating activities without using bank or other borrowings.

As at 31 March 2016 and 2015, all financial liabilities of the Group and Company have a maturity date of less than one year.

(d) Capital risk

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optional capital structure, the Group may issue new shares, obtain new borrowings or sell assets to reduce borrowings.

The Group employs shareholders' equity only and does not have any borrowings.

(e) Financial instruments by category

	Group		Company	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Loans and receivables	103,327	113,962	57,236	58,664
Financial liabilities at amortised cost	6,180	10,205	1,264	1,498

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

29. Immediate and ultimate holding corporation

The Company's immediate and ultimate holding corporation is Mu Xia Ltd., incorporated in Bermuda.

30. Related party transactions

In addition to the information disclosed elsewhere in the financial statements, the following transactions took place between the Group and related parties at terms agreed between the parties:

(a) Sales and purchases of goods and services

	Group	
	2016 HK\$'000	2015 HK\$'000
Professional fees paid to director of a subsidiary	230	110

(b) Key management personnel compensation

Key management personnel compensation is as follows:

	Group	
	2016 HK\$'000	2015 HK\$'000
Salaries and other short-term employee benefits	4,400	3,234
Employer's contribution to:		
- defined contribution plans	54	17
- defined retirement benefits	168	306
	4,622	3,557

Included in the above is total compensation to directors of the Company amounting to HK\$1,262,000 (2015: HK\$1,293,000).

31. Segmental information

The Executive Committee ("Exco") is the Group's chief operating decision-maker. The Exco comprises the Managing Director, the Executive Director, and the Group Financial Controller. Management has determined the operating segments based on the reports reviewed by the Exco that are used to make strategic decisions, allocate resources, and assess performance.

Because of the significant increase in Azeus Products Sales and its selling and marketing expenses and assets, the Exco considers the Group to have 2 operating segments which are the provision of Professional Information Technology Services ("Professional IT Services") and sale of proprietary products ("Azeus Products Sales"). There are 3 major revenue streams under Professional IT Services: "IT Services, including sales of project hardware and software", "Maintenance and Support Services" and "Business Process Outsourcing" as the services are similar in nature.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

31. Segmental information (continued)

The segment information provided to the Exco for the reportable segments are as follows:

	Professional IT Services		Azeus Products Sales		Total	
	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales to external customers	104,398	117,040	7,390	7,940	111,788	124,980
Segment results	35,529	38,531	(12,650)	213	22,879	38,744
Provision for impairment of trade receivables	(1,301)	(1,253)	(31)	–	(1,332)	(1,253)
Provision for doubtful debts on unbilled revenue on service contracts	–	(571)	–	–	–	(571)
Add: Arbitration legal fee compensation	8,750	–	–	–	8,750	–
Unallocated income/(expenses)						
Other income	–	–	–	–	314	227
Other losses - net	–	–	–	–	(418)	(2,269)
Depreciation of property, plant and equipment	–	–	–	–	(356)	(423)
Legal and professional fee	–	–	–	–	(1,776)	(2,301)
Rental expense – operating lease	–	–	–	–	(5,944)	(6,020)
Retirement benefit expense	–	–	–	–	(1,497)	(1,157)
Fees on audit services	–	–	–	–	(1,371)	(1,439)
Administrative salaries	–	–	–	–	(5,812)	(5,221)
Insurance	–	–	–	–	(1,527)	(1,661)
Directors compensation	–	–	–	–	(1,262)	(1,293)
Other expenses	–	–	–	–	(7,818)	(8,366)
Profit before tax	–	–	–	–	2,830	6,997
Income tax expense	–	–	–	–	(1,485)	(3,307)
Profit attributable to equity holders of the Company	–	–	–	–	1,345	3,690
Assets and liabilities						
Segment assets	27,789	49,853	19,489	6,227	47,278	56,080
Unallocated assets	–	–	–	–	79,657	74,848
Total assets	–	–	–	–	126,935	130,928
Segment liabilities	5,388	6,730	4,593	–	9,981	6,730
Unallocated liabilities	–	–	–	–	13,993	19,496
Total liabilities	–	–	–	–	23,974	26,226

The revenue from external parties reported to the Exco is measured in a manner consistent with that in the statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

31. Segmental information (continued)

The Exco assesses the performance of the operating segments based on a measure of gross profit less selling and marketing expenses. Assets and liabilities are managed on a group basis and are not allocated to operating segments except for trades receivable, unbilled revenue on service contracts, intangible assets and advances received from customers, as they cannot be directly attributable to individual segments and it is impractical to arbitrarily allocate them to the segments.

(a) Revenue from major products and services

Revenue from external customers are derived mainly from the provision of Professional IT Services and Azeus Products Sales. Breakdown of the revenue is as follows:

	Group	
	2016	2015
	HK\$'000	HK\$'000
Professional IT Services	104,398	117,040
Azeus Products Sales	7,390	7,940
Total	111,788	124,980

(b) Geographical Information

The Group's two business segments operate in the main geographical areas as follows:

	Sales for continuing operations	
	2016	2015
	HK\$'000	HK\$'000
Hong Kong	101,339	114,256
United Kingdom	9,324	9,116
Others	1,125	1,608
Total	111,788	124,980

	Non-current assets	
	2016	2015
	HK\$'000	HK\$'000
Hong Kong	366	261
United Kingdom	60	64
Philippines	1,894	1,740
Bermuda (corporate)	13,243	5,204
Total	15,563	7,269

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

NOTES TO THE FINANCIAL STATEMENTS

For the Financial Year ended 31 March 2016

32. New or revised accounting standards and interpretations

The Group has not early adopted any mandatory standards, amendments and interpretations to existing standards that have been published but are only effective for the Group's accounting periods beginning on or after 1 April 2016. However, management anticipates that the adoption of these standards, amendments and interpretations will not have a material impact on the financial statements of the Group in the period of their initial adoption.

33. 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 16 June 2016.

STATISTICS OF SHAREHOLDINGS

As at 10 June 2016

AUTHORISED NUMBER OF SHARES	:	40 MILLION SHARES
AUTHORISED SHARE CAPITAL	:	US\$8 MILLION (HK\$62.4 MILLION)
ISSUED AND FULLY PAID-UP CAPITAL	:	US\$6 MILLION (HK\$46.8 MILLION)
NUMBER OF ISSUED SHARES	:	30 MILLION SHARES
CLASS OF SHARES	:	ORDINARY SHARE
VOTING RIGHTS	:	ONE VOTE PER SHARE

DISTRIBUTION OF SHAREHOLDINGS

SIZE OF SHAREHOLDINGS	NO. OF SHAREHOLDERS	%	NO. OF SHARES	%
1 - 99	3	0.59	110	0.00
100 - 1,000	264	52.17	133,490	0.44
1,001 - 10,000	171	33.80	701,521	2.34
10,001 - 1,000,000	65	12.85	4,432,740	14.78
1,000,001 AND ABOVE	3	0.59	24,732,132	82.44
TOTAL	506	100.00	29,999,993	100.00

TWENTY LARGEST SHAREHOLDERS

NO.	NAME	NO. OF SHARES	%
1	MU XIA LTD	15,300,000	51.00
2	LEE WAN LIK	8,032,132	26.77
3	LAM PUI WAN	1,400,000	4.67
4	KHOO TEIK LIANG	559,000	1.86
5	UOB KAY HIAN PRIVATE LIMITED	379,630	1.27
6	EST OF ONG KIM KIAT, DEC'D	319,000	1.06
7	EST OF LIM CHEE NEO LUCY@CAROL LIM, DEC'D	300,000	1.00
8	LIM & TAN SECURITIES PTE LTD	160,500	0.54
9	LIEW KUO HUEI	147,820	0.49
10	CHOOI SIEW THIM	125,100	0.42
11	NOMURA SINGAPORE LIMITED	124,500	0.42
12	LIM GUAN TECK	110,000	0.37
13	TAN JUI YAK	104,900	0.35
14	THAM WAI FONG	103,700	0.35
15	LAI WENG KAY	100,000	0.33
16	OCBC SECURITIES PRIVATE LIMITED	87,400	0.29
17	LIM GUAN CHIANG ALBERT	85,000	0.28
18	TAO WING HONG	78,975	0.26
19	GUOK SING ONG JAMES	76,000	0.25
20	SUE YAP SOH MOOI	71,400	0.24
	TOTAL	27,665,057	92.22

STATISTICS OF SHAREHOLDINGS

As at 10 June 2016

SUSTANTIAL SHAREHOLDERS

(as recorded in the Register of Substantial Shareholders)

NAME	NO. OF SHARES HELD AS DIRECT	%	NO. OF SHARES HELD AS DEEMED	%
Mr Lee Wan Lik	8,032,132	26.77	15,300,000	51.00
Ms Lam Pui Wan	1,400,000	4.67	15,300,000	51.00
Mu Xia Ltd.	15,300,000	51.00	—	—

Mr Lee Wan Lik and Ms Lam Pui Wan, holding shareholding interests of 10% and 90% respectively in Mu Xia Ltd., are deemed interested in the 15,300,000 shares held by Mu Xia Ltd.

PUBLIC FLOAT

Based on the information available to the Company as at 10 June 2016, approximately 17.56% of the issued ordinary shares of the Company is held by the public. The Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Azeus Systems Holdings Ltd. (the “Company”) will be held at Enterprise Room, Raffles City Convention Centre Level 4, 80 Bras Basah Road, Singapore 189560 on Friday, 8 July 2016 at 10.00 a.m., to transact the following business:

As Ordinary Business

1. To receive and adopt the Directors’ Statement and Audited Financial Statements of the Company for the financial year ended 31 March 2016, and the Auditor’s Report thereon.
2. To declare a First & Final dividend of 4.47 HK cents per ordinary share for the financial year ended 31 March 2016. [2015: 1.23 HK cents].
3. To approve the payment of Directors’ Fees of S\$78,000 for the financial year ended 31 March 2016. [2015: S\$78,000].
4. To re-elect Mr Koji Miura, a Director who retires pursuant to Article 104 of the Company’s Bye-Laws. **[See Explanatory Note (i)]**
5. To re-elect Mr Chan Ching Chuen, a Director who retires pursuant to Article 104 of the Company’s Bye-Laws. **[See Explanatory Note (ii)]**
6. To re-appoint Messrs PricewaterhouseCoopers LLP as Auditors and to authorize the Directors to fix their remuneration.

As Special Business

To consider and if deemed fit to pass the following Ordinary Resolution with or without modifications:-

7. Share Issue Mandate

THAT pursuant to Rule 806 of the Listing Manual of Singapore Exchange Securities Trading Limited (“SGX-ST”), 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 total number of the issued shares (excluding treasury shares) 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 total number of the issued shares (excluding treasury shares) of the Company;
- (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 total number of the issued shares (excluding treasury shares) at the time this resolution is passed, after adjusting for:
 - (a) new shares arising from the conversion or exercise of any convertible securities;

NOTICE OF ANNUAL GENERAL MEETING

- (b) new shares arising from exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and
- (c) any subsequent bonus issue, consolidation or subdivision of shares;
- (iii) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Bye-Laws for the time being of the Company; and
- (iv) (Unless revoked or varied by the Company in a general meeting) such authority 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 (iii)]

8. **Authority to allot and issue shares under the AZEUS EMPLOYEE SHARE Option Scheme**

THAT the Directors of the Company be and are hereby authorized to offer and grant options in accordance with the provisions of the Azeus Employee Share Option Scheme (the “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 number of the issued shares (excluding treasury shares) of the Company from time to time. **[See Explanatory Note (iv)]**

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

By Order of the Board

Yap Wai Ming
Company Secretary
Singapore, 24 June 2016

NOTICE OF ANNUAL GENERAL MEETING

Explanatory Notes

- (i) **Resolution 4**, Mr Koji Miura, if re-elected, will remain as Chairman of the Audit Committee and a Member of the Remuneration and Nominating Committees. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST.
- (ii) **Resolution 5**, Mr Chan Ching Chuen, if re-elected, will remain as Chairman of the Nominating Committee and a Member of the Audit and Remuneration Committees. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST.
- (iii) **Resolution 7**, if passed, will authorize 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 total number of issued shares of the Company (excluding treasury shares), of which up to 20% may be issued other than on a pro-rata basis to the 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.
- (iv) **Resolution 8**, if passed, will authorize the Directors to offer and grant options in accordance with the provisions of the Azeus Employee Share Option Scheme (the "Scheme") and to allot and issue shares under the Scheme up to an amount not exceeding 15% of the total number of issued shares (excluding treasury shares) 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 concerned to be represented by each proxy shall be specified in the Member Proxy Form. 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 Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 not less than 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 wishes to attend and vote at the Annual General Meeting then he/she/it should complete the Proxy Form and deposit the duly completed Proxy Form at the office of the Singapore Share Transfer Agent, Boardroom Corporate & Advisory Services Pte. Ltd. at 50 Raffles Place #32-01, Singapore Land Tower, Singapore 048623 not later than 48 hours before the time set for the holding of the Annual General Meeting.

PERSONAL DATA PRIVACY

Where a member of the Company submits an instrument appointing a proxy(ies) and/or representative(s) to attend, speak and vote at the Annual General Meeting and/or any adjournment thereof, a member of the Company (i) consents to the collection, use and disclosure of the member's personal data by the Company (or its agents) for the purpose of the processing and administration by the Company (or its agents) of proxies and representatives appointed for the Annual General Meeting (including any adjournment thereof) and the preparation and compilation of the attendance lists, proxy lists, minutes and other documents relating to the Annual General Meeting (including any adjournment thereof), and in order for the Company (or its agents) to comply with any applicable laws, listing rules, regulations and/or guidelines (collectively, the "Purposes"); (ii) warrants that where the member discloses the personal data of the member's proxy(ies) and/or representative(s) to the Company (or its agents), the member has obtained the prior consent of such proxy(ies) and/or representative(s) for the collection, use and disclosure by the Company (or its agents) of the personal data of such proxy(ies) and/or representative(s) for the Purposes.



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Incorporated in Bermuda on 10 May 2004
Registration Number: 35312