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Issuer: Azeus Systems Holdings Ltd.

Security: Azeus Systems Holdings Ltd.

Meeting details:

Date: 13 July 2018

Time: 10.00 a.m.

Venue: EDB Room, Lower Lobby, The Fullerton Hotel Singapore, 1 Fullerton Square, Singapore 049178

Company Description

Azeus Systems Holdings Ltd., an investment holding company, provides information technology (IT) consulting, project management, and implementation services in Hong Kong, the United Kingdom, and internationally. It operates through two segments, Professional IT Services and Azeus Products Sales. The company offers application services, including application development, and maintenance and support of packaged applications; custom application/IT outsourcing services, such as maintenance and support for custom built applications; and application portfolio management services for auditing applications. It also provides business process outsourcing services comprising business process management and business technology solutions comprising IT consulting, IT maintenance and support, and office operations and support services. In addition, the company offers solutions, such as AzeusCare, an integrated system for managing and delivering social care; convene board portal, a portal for iPad, Android, Mac devices, and Web to access board papers and documents on mobile devices; CentroPurchase, an online system for purchasing process; iCubed, a proprietary technology solution for intellectual property information access; and electronic record keeping system, a Web-based document management solution for keeping and tracking electronic records and documents. Further, it sells third party hardware and software products. The company was founded in 1991 and is based in North Point, Hong Kong. Azeus Systems Holdings Ltd. is a subsidiary of Mu Xia Ltd.

(Source: http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=BBW)

1. As noted in the Managing Director’s Message, the group recognised a net profit of HK\$1.9 million in FY18 (FY17: HK\$(21.6) million) due to a one-off income of HK\$7.3 million from a settlement of a maintenance claim as well as currency exchange gain of HK\$4.5 million.

In Note 31 (page 69 – Segmental information), the segment results from Professional IT Services and Azeus Products were HK\$28.1 million and HK\$(10.5) million respectively. The two major revenue streams under Professional IT Services are “IT Services, including sales of project hardware and software” and “Maintenance and Support Services”.

While revenue more than doubled to HK\$24.4 million in the Azeus Products segment, the revenue contribution from Maintenance and Support Services segment declined 13.7% to HK\$46.0 million and revenue from IT Services was fairly stable at HK\$31.9 million in FY2018 (FY17: HK\$32.7 million) (page 46).

- (i) Azeus Products: Other than “Azeus Convene” and “AzeusCare”, are there any other proprietary products that the group has developed or started development work on? Can management help shareholders understand how it had selected these two areas of board management and case management as its first two products? What is the strategy to identify new products? As most of the segment revenue is generated from outside of Hong Kong, does the group have the necessary network and knowledge of the local markets to scale up quickly and in a cost efficient manner? When is management targeting to achieve breakeven for the segment?**
- (ii) IT Services: While the group has secured a series of governmental IT projects from the Hong Kong Government, how does management ensure that these projects provide the group with appropriate levels of profit margin? Can management also help shareholders understand if the group can tender and secure projects from the private sector?**
- (iii) Maintenance and Support Services: The expiry of a major maintenance and support outsourcing contract led to a 13.7% decline in segment revenue in FY2017. What are the retention rate and the typical contract period of the group’s maintenance and support customers? What is the group’s strategy to acquire new customers and to secure new contracts?**

2. The “Capitalisation and valuation of development costs as intangible assets - Azeus Products” is a key audit matter (KAM) highlighted by the Independent Auditor in their Report on the Audit of the Financial Statements (page 27). Key audit matters are those matters that, in the professional judgement of the Independent Auditor, were of most significance in the audit of the financial statements of the current period.

As noted in the KAM, qualified internally development costs for the Azeus Products capitalised as intangible assets amounted to HK\$7.4 million and HK\$10.9 million in FY18 and FY17 respectively. The net book value at 31 March 2018 was approximately HK\$14.8 million (FY2017: HK\$15.5 million) (Note 18 – Intangible assets).

In FY18, the group recorded an impairment charge of HK\$1.9 million.

- (i) Would management elaborate further on the reasons that led to the impairment charge? What were some of the key assumptions (such as the growth rates and the discount rates) used in the impairment assessment?**

In addition, as disclosed in Note 18 (page 54 – Intangible assets), the expected useful lives of intangible assets was increased from 3 years to 5 years following an operational review. This resulted in a decrease of HK\$3.6 million in amortisation to be charged by the group in FY18 and a further decrease of HK\$2.0 million in amortisation charge in FY19.

- (ii) What were the key findings of the operational review that allowed the expected useful lives to be increased from 3 years to 5 years?**

3. In the company's Corporate Governance report, it was stated that Mr Michael Yap Kiam Siew and Mr Koji Miura have served on the board for more than nine years (page 14). Both long tenured directors were appointed to the board on 14 September 2004.

Guideline 2.4 of the 2012 Code of Corporate Governance ("CG Code") calls for a particularly rigorous review of the independence of any director who has served on the board beyond nine years from the date of his/her first appointment.

- (i) Has the board carried out a "particularly rigorous review" of the independence of the long tenured directors as recommended in Guideline 2.4 of the CG Code? If so, can the board elaborate further on the review process by the board?**
- (ii) The board has also stated that it had considered the need for progressive refreshing of the board. Can the NC elaborate further on the deliberations it has had on board succession plans for directors?**
- (iii) What are the board's near-term plans to refresh the board membership progressively and in an orderly manner, to avoid losing institutional memory?**