Timeless Software Limited

Interim Report
for the quarter ended 30 September 2000

Characteristics of The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This Interim Report, for which the directors of Timeless Software Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Timeless Software Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this Interim Report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this Interim Report misleading; and (3) all opinions expressed in this Interim Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

The Board of Directors ("Board") of Timeless Software Limited ("Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries ("Group") for the six and three months ended 30 September 2000 together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

		Six months ended 30 September		**Three months ended 30 September**	
		2000	1999	**2000**	1999
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	2	**59,021**	30,901	**25,646**	16,006
Other revenues	2	**27,954**	2,133	**23,124**	1,605
		86,975	33,034	**48,770**	17,611
Cost of sale of computer software and hardware		**(17,470)**	(2,316)	**(12,261)**	(1,587)
Staff costs		**(20,811)**	(14,931)	**(10,416)**	(7,355)
Depreciation		**(2,196)**	(1,148)	**(1,626)**	(629)
Other operating expenses		**(7,451)**	(7,516)	**(3,557)**	(5,080)
Operating profit		**39,047**	7,123	**20,910**	2,960
Finance costs	3	**(3,908)**	(2,365)	**(924)**	(984)
Profit before taxation		**35,139**	4,758	**19,986**	1,976
Taxation	4	**(5,100)**	—	**(5,100)**	—
Profit for the period retained		**30,039**	4,758	**14,886**	1,976
Earnings per share -Basic	5	**4.01 cents**	1.19 cents	**1.98 cents**	0.41 cents

Notes:

1. **Basis of presentation**

   The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention.

   The unaudited consolidated results include the results of the Company and all its subsidiaries made up to 30 September. The results of subsidiaries acquired or disposed of during the period are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

   All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. Revenue and turnover

The Group is principally engaged in the provision of computer consultancy services, the development and sale of computer software, and magazine publishing. Revenues recognised during the periods are as follows:

	Six months ended 30 September		Three months ended 30 September	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover				
Income from the provision of computer consultancy services	**38,005**	26,474	**13,008**	11,816
Sale of computer hardware and software	**20,914**	4,383	**12,600**	4,146
Advertising income	**76**	44	**19**	44
Subscription income	**26**	—	**19**	—
	59,021	30,901	**25,646**	16,006
Other revenues				
Interest income	**8,033**	756	**3,358**	742
Commission received	**—**	482	**—**	—
Write back of long outstanding payables and provisions	**41**	492	**41**	492
Realised gain on investment securities	**19,508**	—	**19,508**	—
Realised gain on other investments	**—**	92	**—**	92
Unrealised holding gain on other investments	**—**	281	**—**	281
Net exchange gain/(loss)	**301**	3	**177**	(2)
Miscellaneous income	**71**	27	**40**	—
	27,954	2,133	**23,124**	1,605
Total revenues	**86,975**	33,034	**48,770**	17,611

3. Finance costs

	Six months ended 30 September		Three months ended 30 September	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest on				
Finance lease	**20**	—	**10**	—
Acquisition of land and building paid to vendor	**3,145**	—	**171**	—
Convertible note	**743**	—	**743**	—
Loans from a shareholder	**—**	2,307	**—**	965
Amount due to a third party	**—**	58	**—**	19
	3,908	2,365	**924**	984

4. **Taxation**

	Six months ended 30 September		Three months ended 30 September	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong profits tax				
Current period provision	**2,700**	—	**2,700**	—
Underprovision in prior period	**2,400**	—	**2,400**	—
	5,100	—	**5,100**	—

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the period. No provision for Hong Kong and overseas taxes have been made in previous periods' accounts as the group had no assessable profits in these jurisdictions in previous periods.

No provision for income tax of the People's Republic of China ("PRC") has been made in the accounts as the subsidiary in the PRC has no assessable profit for the year ended 31 December 1999 and is entitled to a 100% tax relief for the year ending 31 December 2000.

No deferred taxation has been recognised in the accounts as the crystallisation of the deferred tax asset in the foreseeable future is uncertain.

5. **Earnings per share**

The calculation of the basic earnings per share is based on the Group's profit for the six months and three months ended 30 September 2000 of approximately HK$30,039,000 and HK$14,886,000 (1999: HK$4,758,000 and HK$1,976,000) and the weighted average number of 750,000,000 shares (1999: 398,829,545 shares and 476,802,248 shares after adjusting for the stock split taken place during the year ended 31 March 2000) in issue during the periods.

No diluted earnings per share has been presented for the six months and three months ended 30 September 2000 as the conversion price of the Company's outstanding convertible note was higher than the average fair value for the period. No diluted earnings per share has been presented for the six months and three months ended 30 September 1999 as the exercise price of the Company's outstanding option granted to two private investors prior to listing was higher than the average fair value for the period.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the quarter ended 30 September 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECT

General

The Group continued to make solid progress in the second quarter, bringing total revenue to HK$87 million and generating HK$35 million of profit before taxation for the first half ended 30 September 2000. Included in other revenues is a realised gain on the partial disposal of the Group's holding in i100 Limited, which effectively recovered the Group's original total investment cost of approximately HK$15.6 million in that company.

We went through two rather difficult quarters during which the market was affected by the weakness across global technology counters. The consolidation to the Internet and e-commerce investment deepened further in the second quarter. The Group reacted to such change by being more selective in taking up new contracts from new economy ventures and focusing on collection and repeat business from existing major customers. As a result, our accounts receivable at end of September 2000 was lower than that 6 months ago.

The Group continued to benefit from its China-focus strategy and enjoyed significant revenue growth from the PRC, which served to offset the slowdown in the new economy sector. In the first half, revenue from the PRC region already exceeded the full year figure for the last year and accounted for about 30% of the Group revenue.

Venture into China

After thorough discussion and negotiation, the Company has entered into an official co-operative venture agreement with China Electronics Corporation ("CEC"), a subsidiary of the Ministry of Information Industry ("MII") and SDIC Electronics Company ("SDIC"), a subsidiary of the State Development and Investment Corporation Group. The Company acquired 28.5% of the Zhuhai Southern Software Park for approximately HK$31.2 million, while CEC and SDIC hold the other 41.5% and 30% respectively.

The Software Park was the business entity established by the PRC government agencies designated for the development of a national-class software development base in Southern China. The official participation of the Company in such a way is believed to be unprecedented and it definitely marks another milestone for the Group's commercial and technological development in China.

Venture into Broadband

Through eDynasty21.com Limited, a wholly owned subsidiary of the Company, we have formed in August 2000 a fifty-fifty joint venture with a wholly owned subsidiary of Henderson China Holdings Limited ("Henderson"), a company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The joint venture will initially carry on the business of developing broadband Internet business-to-business (B2B) solutions and high-end applications targeting sophisticated customers in China. The joint venture business may also encompass other Internet based and e-commerce driven solutions and services.

Outlook

Opportunity and crisis are twins. As our business enjoys a healthy profit margin, we believe in investing a portion of our profitability over the short term to achieve a bigger and larger scale of market share for our long term growth. Having experienced the pain from a stormy market, the Group as a fitter survivor will look forward to further gain from a yet depressed market.

Our robust balance sheet enables us to invest in technology and e-commerce companies with synergy to the Group at far more reasonable cost than at the time of hype. The slowdown in the industry lessens the wage increment pressure, which is important to our bottom-line as over 65% of our operating expenses is staff related. The depressed market conditions on the other hand present an opportune time to launch our Share Option Scheme for employees (ESOP) which will be a major additional motivation factor to retain and attract new talent.

Our focus to concentrate our expansion efforts in China would be very timely as the WTO entrance is drawing ever closer. While it may take time for the market on the mainland to become fully evolved, a continued emphasis would be highly justifiable in the long-term considering the size of a market such as China. The Group will continue to focus on developing the China market and broadband software applications as the dominant strategy in the coming quarters.

BUSINESS OBJECTIVES REVIEW

The following sections compare the Group's actual business progress to the information provided in the statement of business objectives as set out in the listing document.

Revenues

The timeliness and the disciplined implementation of the Group's strategy to increase capacity in its PRC operation had borne fruit. The proportion of revenue generated from our business in the PRC has increased from about 10% by the year ended 31 March 2000 to over 30% by the first half ended 30 September 2000. Internet technology and related services remain the biggest contributor to the total revenue. Approximately HK$1.8 million from the proceeds from the placing was used for the further expansion of the Guangzhou office and for the initial operation of the Beijing office.

Product development

We have devoted increasing resources to the R&D of productising our Internet applications. A newer version of our Internet Technology Platform, ITP v2, is expected to be launched in the coming quarter. We have been in discussion with several banks on the prospect of using our solution as their application backend. The Group's web-site (www.timeless.com.hk) is undergoing a major re-vamping which, when completed, will incorporate the new, broadband functionality of our Internet solution. Expenditures attributable to research and product development amounted to approximately HK$8 million from the proceeds from the placing for the period under review.

Marketing

The Zhuhai Southern Software Park, our joint venture with MII and the SDIC Group, has completed phase one of construction and IT infrastructure setup and has signed up with a number of users. As the Enterprise Resource Planning (ERP) market in PRC is quickly moving towards more Internet centric solutions such as electronic Customer Relationship Management (eCRM), the Group will instead concentrate on developing our broadband B2B solution through joint ventures such as the one formed with Henderson. The amount used in the period under review for the above said purposes, inclusive of investment in the Henderson venture, was insignificant.

Joint ventures and collaborations

Approximately HK$31.2 million of the proceeds from the placing was used to acquire 28.5% shareholding of Zhuhai Southern Software Park Development Company Limited. The actual development in the Software Park is ahead of the business objectives as set out in the listing document. The Software Park is already operational and is accommodating elite customers.

Acquisitions, subsidiaries and branches

The Group invested approximately HK$0.5 million in setting up a new subsidiary in Beijing. It is fully operational and with about 20 staff members. As mentioned above, the Group has formed a joint venture to promote broadband B2B solutions to major enterprises in the PRC with far reaching operations in the country.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 30 September 2000, the interests of the directors and chief executives in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name	Personal interests	Corporate interests
Mr. Cheng Kin Kwan[1]	48,400,000 shares	—
Mr. Cheng Wan Cheung, Danny[1]	42,400,000 shares	—
Mr. Law Kwai Lam	10,000,000 shares	28,325,000 shares[2]
Mr. Chung Yiu Fai	2,700,000 shares	—
Ms Leung Mei Sheung, Eliza	1,030,000 shares	—
Mr. Kan Siu Kei, Laurie[1]	42,400,000 shares	—
Ms Chan Vivien	50,000 shares	—
Mr. Poon Cho Yiu, Ronald	1,000,000 shares	—

1. Mr. Cheng Kin Kwan, Mr. Cheng Wan Cheung, Danny and Mr. Kan Siu Kei, Laurie are initial management shareholders as defined in Rule 13.15(2) of the GEM Listing Rules. Their holdings represent respectively 6.45%, 5.65% and 5.65% of the issued share capital of the Company.

2. These shares were held by a private company controlled by Mr. Law Kwai Lam.

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held in trust for the Group, at 30 September 2000, none of the directors, chief executives or their associates had any interests in any securities of the Company and its associated corporations as defined in the SDI Ordinance.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the period was the Company or its subsidiaries a party to any arrangement to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 30 September 2000, the Company had been notified of the following substantial shareholder's interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name	Number of shares	Percentage of issued share capital
Crimson Asia Capital Limited, L.P.	122,357,480	16.31%

MANAGEMENT SHAREHOLDERS

Save for the initial management shareholders and substantial shareholder as herein-above disclosed, the directors are not aware of any persons who as at 30 September 2000 were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

Save as disclosed herein, the directors are not aware of, as at 30 September 2000, any business or interest of each director, initial management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the period.

INTEREST OF SPONSOR

To the best knowledge of ING Barings Asia Limited ("ING Barings"), the Company's sponsor, the directors, employees and associates of ING Barings were interested in 17,176,000 shares of the Company as at 30 September 2000.

ING Barings has entered into a sponsorship agreement with the Company whereby, for a fee, ING Barings will act as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period from 18 November 1999 to 31 March 2002.

By Order of the Board
Cheng Kin Kwan
Chairman

Hong Kong, 14 November 2000