Timeless Software Limited

Interim Report
for the quarter ended 31 December 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 nine and three months ended 31 December 2000 together with the comparative unaudited figures for the corresponding periods in 1999 as follows:

		Nine months ended 31 December		**Three months ended 31 December**	
		2000	1999	**2000**	1999
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	2	**109,145**	38,780	**50,124**	7,879
Other revenues	2	**31,748**	14,344	**3,794**	12,211
		140,893	53,124	**53,918**	20,090
Cost of sale of computer software and hardware		**(50,764)**	(6,118)	**(33,294)**	(3,802)
Staff costs		**(30,081)**	(20,801)	**(9,270)**	(5,870)
Depreciation		**(3,912)**	(1,752)	**(1,716)**	(604)
Other operating expenses		**(12,140)**	(9,943)	**(4,689)**	(2,427)
Operating profit		**43,996**	14,510	**4,949**	7,387
Finance costs	3	**(4,791)**	(2,582)	**(883)**	(217)
Profit before taxation		**39,205**	11,928	**4,066**	7,170
Taxation	4	**(5,500)**	—	**(400)**	—
Profit for the period retained		**33,705**	11,928	**3,666**	7,170
Earnings per share - Basic	5	**4.49 cents**	2.53 cents	**0.49 cents**	1.17 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 31 December. 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:

	Nine months ended 31 December		**Three months ended 31 December**	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover				
Income from the provision of computer consultancy services	**53,916**	31,544	**15,911**	5,069
Sale of computer hardware and software	**55,066**	7,170	**34,152**	2,787
Advertising income	**133**	61	**57**	17
Subscription income	**30**	5	**4**	6
	109,145	38,780	**50,124**	7,879
Other revenues				
Interest income	**10,680**	4,035	**2,647**	3,279
Commission received	**—**	482	**—**	—
Write back of long outstanding payables and provisions	**41**	492	**—**	—
Dividend received from other investments	**—**	51	**—**	51
Realised gain on investment securities	**20,565**	—	**1,057**	—
Realised loss on other investments	**—**	(1,322)	**—**	(1,414)
Unrealised holding gain on other investments	**—**	763	**—**	482
Waiver of accrued interest on loans from a shareholder and former director	**—**	9,805	**—**	9,805
Exchange gain/(loss)	**292**	(1)	**(9)**	(4)
Miscellaneous income	**170**	39	**99**	12
	31,748	14,344	**3,794**	12,211
Total revenues	**140,893**	53,124	**53,918**	20,090

3. **Finance costs**

	Nine months ended 31 December		Three months ended 31 December	
	2000	1999	**2000**	1999
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest on				
Finance lease	**30**	—	**10**	—
Acquisition of land and building paid to vendor	**3,145**	—	**—**	—
Convertible note	**1,616**	—	**873**	—
Loans from a shareholder	**—**	2,524	**—**	217
Amount due to a third party	**—**	58	**—**	—
	4,791	2,582	**883**	217

4. **Taxation**

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 profits tax has been made in previous periods' accounts as there were sufficient tax losses of the Group brought forward to set off against the assessable profits in the previous periods.

No provision for income tax of the People's Republic of China ("PRC") has been made in the accounts as the subsidiaries in the PRC had no assessable profits for the periods under review.

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 nine months and three months ended 31 December 2000 of approximately HK$33,705,000 and HK$3,666,000 (1999: HK$11,928,000 and HK$7,170,000) and the weighted average number of 750,414,545 shares and 751,239,130 shares (1999: 471,285,631 shares and 615,410,240 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 nine months and three months ended 31 December 2000 as the conversion price of the Company's outstanding convertible note 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 31 December 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECT

General

Amid a generally depressed market and a traditionally very low season, the Group generated profit before taxation of approximately HK$4 million and total revenue of approximately HK$54 million in the 3rd quarter of the current financial year, making it the 6th consecutive quarter of profitability for the Group. The increase in revenue brought the total revenue year-to-date up to a level comparable to the full year result last year.

The increase of revenue in the quarter resulted from satisfactory progress from certain major contracts undertaken earlier in the year. Since some of the contracts completed had significant portion of lower margin business such as system integration, the overall margin for the quarter appeared to be lower than that for the previous quarters. However, the profit margin from the sales of software products - developed around the Timeless platform - and services, which is the core business of the Group, has been well maintained.

Development in Core Business

The slow-down in the market enabled the Group to devote more resources to the continuous development and productisation of our core products such as the newer version of the Internet Technology Platform ("ITP"). Our platform products cover the major commonality of applications to be implemented for any new economy systems, and are designed to act as the catalyst facilitating the transformation of traditional business models to e-business ones. We believe the possession of such proprietary technology, which has been developed over the years, is the most important asset of the Group and will continue to be our unique competitive edge in the years to come.

The language translation software that the Group has been developing in contingent with a United States ("US") based affiliate has reached advanced stage. This has been introduced to a number of major prospects in the US and Application Service Providers, and has met with encouraging response. As the market for the large-scale computer-based translation is still intact at the moment, we believe our technology in this field is among the best in the world and has tremendous market potential.

While we are very focused on developing the China market, we shall not overlook the potential demand for our solutions, especially the ITP and software globalization, from other markets. We are considering setting up a US operation in the coming quarters to promote the Timeless brand name and business in the North American market.

Performance of Affiliates

In the past 12 months the Group has invested in a number of technology and e-business companies that met the following criteria:

1. Possess capability that has synergy with the Group's core business.

2. Deploy the Timeless ITP to form its technology backbone and long-term strategy.

3. Have viable or proven business models to achieve profitability and listing potential.

These companies have made substantial progress in their respective business development:

Zhuhai Southern Software Park, which is a joint venture with the Ministry of Information Industry ("MII"), and another state-owned enterprise, in the PRC, has been awarded the status as a "National Software Development Base" from the MII. It has signed up with over 50 technology companies and is spearheading to become the most important software development base in Southern China.

i100 Limited, an Internet investment company, was listed on the Exchange and the Group has profited from the disposal of part of its investment in this company.

Pro-Market Global Plc, a one-stop e-marketing company, was listed and started to trade on OFEX in London in October 2000 at a price substantially higher than the Group's investment cost.

A few other companies are well into the process of preparing for listing on GEM or NASDAQ, and we are hopeful that some will be successful in the next 12 months. As such, the quality of our investments will be enhanced substantially despite the weakness across technology counters and investment sector.

Outlook

That the consolidations which had persisted in the technology markets worldwide had forced some "dotcom" companies out of business may have led some to believe that overall technology spending would be dragged down as well. However, we believe the only thing which will get eliminated by the consolidation is an unviable business model, but this alone will not hinder the healthy development of e-business and Internet technology.

Furthermore, we are encouraged by the PRC authority's determination in investing in and working on the country's Internet infrastructure, and the entrance of China to the World Trade Organization ("WTO") will stimulate spending in technology by Chinese enterprises to raise their level of competitiveness. All such are good news for technology providers like us who has an early footing in an enormous and yet under-penetrated market.

Looking forward, while we will use our best endeavors to maintain the profitability of the Group, we are satisfied that every activity in the Group is moving in the direction of enhancing shareholder value in the long term, and we see no reason to deviate from our primary strategy that concentrates on software development, Internet technology, and the China market.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 31 December 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]	51,280,000 shares	—
Mr. Cheng Wan Cheung, Danny[1]	47,400,000 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&3]	42,400,000 shares	—
Ms Chan Vivien	50,000 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 6.82%, 6.31% and 5.64% of the issued share capital of the Company.

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

3. Mr. Kan Siu Kei, Laurie resigned as non-executive director with effect from 30 January 2001.

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held in trust for the Group, at 31 December 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 31 December 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	16.28%

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 31 December 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 31 December 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 not interested in the shares of the Company as at 31 December 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, 8 February 2001