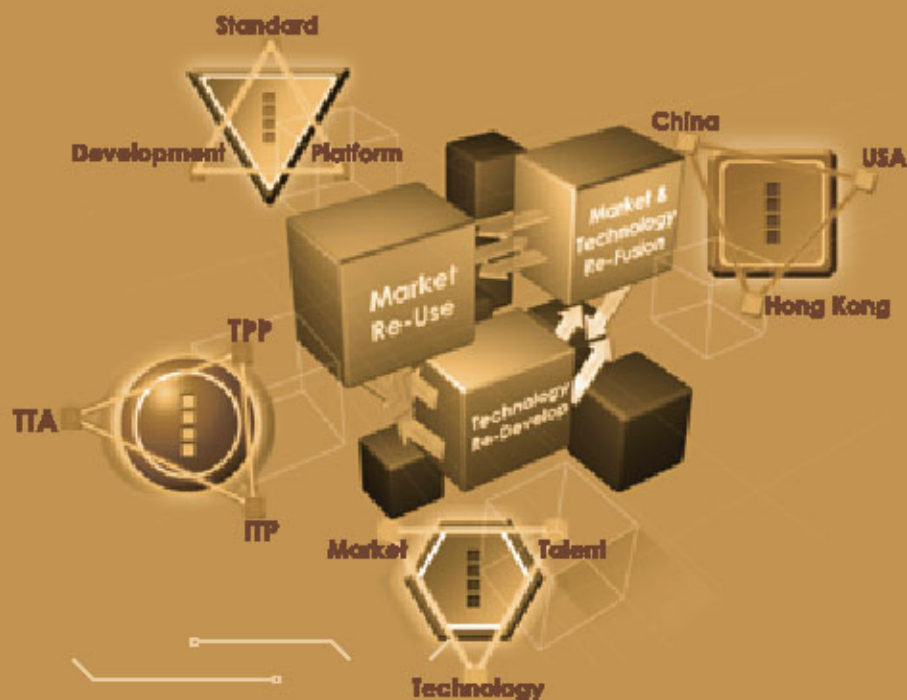


TIMELESS

SOFTWARE LIMITED



Interim Report

for the quarter ended 30 June 2001

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 Interim Reports 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 three months ended 30 June 2001 together with the comparative unaudited figures for the corresponding period in 2000 as follows:

		Three months ended 30 June	
	<i>Note</i>	2001 HK\$'000	2000 <i>HK\$'000</i>
Turnover	2	15,935	33,375
Other revenues	2	2,261	4,830
		18,196	38,205
Cost of sale of third party computer software and hardware		(797)	(5,209)
Staff costs		(8,022)	(10,395)
Depreciation and amortisation		(3,315)	(570)
Other operating expenses		(3,932)	(3,894)
Operating profit		2,130	18,137
Finance costs	3	(1,476)	(2,984)
Share of loss of the jointly controlled entity		(207)	—
Profit before taxation		447	15,153
Taxation	4	—	—
Profit after taxation		447	15,153
Minority interests		138	—
Profit for the period retained		585	15,153
Basic earnings per share	5	0.08 cents	2.02 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 June. 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, development of computer software, sale of third party computer hardware and software, and magazine publishing. Revenues recognised during the period are as follows:

	Three months ended	
	30 June	
	2001	2000
	HK\$'000	HK\$'000
Turnover		
Income from the provision of computer consultancy services	14,974	24,997
Sale of third party computer hardware and software	914	8,314
Advertising income	46	57
Subscription income	1	7
	15,935	33,375
Other revenues		
Interest income	1,968	4,675
Write back of long outstanding payables and provisions	126	—
Realised gain on investment securities	67	—
Convertible loan note interest	60	—
Net exchange gain	22	124
Miscellaneous income	18	31
	2,261	4,830
Total revenues	18,196	38,205

3. Finance costs

	Three months ended 30 June	
	2001 HK\$'000	2000 HK\$'000
Interest on		
Convertible note	642	—
Bank loan	826	—
Acquisition of land and building paid to vendor	—	2,974
Finance lease	8	10
	<u>1,476</u>	<u>2,984</u>

4. Taxation

No Hong Kong profits tax has been provided in the accounts as the Group has no assessable profit for the period. No provision for Hong Kong profits tax has been made in previous period's accounts as there were sufficient tax losses brought forward to set off against the assessable profit in the previous period.

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 have no assessable profits for the period under review. The subsidiaries in the PRC are entitled to 100% tax relief for the year ended 31 December 2000 and the year ending 31 December 2001.

No provision for taxation for an overseas subsidiary is required as this overseas subsidiary has no assessable profit for the period.

No deferred tax asset relating to tax losses 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 attributable to shareholders for the three months ended 30 June 2001 of HK\$585,000 (2000: HK\$15,153,000) and the weighted average number of 770,137,362 shares (2000: 750,000,000 shares) in issue during the period.

No diluted earnings per share has been presented for the three months ended 30 June 2001 as there is no material dilution arising from the share options granted by the Company and the outstanding convertible note has anti-dilutive effect.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the quarter ended 30 June 2001 (2000: Nil).

MOVEMENT OF RESERVES

During the three months ended 30 June 2001, 16,000,000 shares and 16,000,000 shares were issued and allotted at HK\$0.8 and HK\$0.984 per share respectively as payment of consideration for acquisitions, resulting in an increase of HK\$26,944,000 in the share premium account.

BUSINESS REVIEW AND OUTLOOK

General

Against a bearish sentiment towards anything technology and under lethargic market conditions, the Group managed to stay profitable in the first quarter of the financial year. Total revenues for the three months ended 30 June 2001 amounted to approximately HK\$18.2 million and profit before taxation was approximately HK\$0.4 million, a considerable step backward as compared to the same period of last year. Still, this quarter was the ninth consecutive quarter of profitability for the Group. That this chain of profitability has remained intact, seemingly immune to woes spawned by the global technology bubble, could be attributed to the Group's persistence on pursuing software development closely linked to what the market wanted. Also, the first quarter of the financial year was usually slower, a period ideal for the Group to review and refine its strategies and plans. What the Group aimed to achieve through these efforts was, simply put: what we develop day in and day out for our clients would at the same time add value to our own technology platform. This act or ability to constantly accumulate value onto or in its own products is not only where the Group's confidence on future profitability lies but also what distinguishes the Group from those who bet and get burned on some market that did not exist.

With software development business the core of attention, the Group undertook comprehensive consolidation internally and adopted a number of measures of significance during the period.

As a result of the consolidation, at 30 June 2001 the Group had about 10 affiliates who were at the same time strategic users and strategic partners, and orders on hand close to HK\$450 million. These orders are being managed and executed efficiently, and advanced technologies demanded thereby developed urgently. Territory-wise, the Group made new business deep and wide inside the PRC and successfully set foot on the US shore.

These moves, designed and destined to shape the Group's future, will be of particular interest as they progress onwards in the current financial year.

Company consolidation

To be sure, it was wise to institute a consolidation before embarking on an expansion, especially when improvement of the current gloom was yet uncertain. In the period, consolidation involved pooling and pulling together resources around our focus, i.e. software development, such that the Group and its affiliates might be better positioned for profit generation, and such that they might be put on a smoother path toward an eventual listing.

These comprehensive consolidations covered geographical regions, personnel and resources. In brief, the Group's Hong Kong headquarters would become the handler of all external business and relations and act as the centre of command with respect to all internal affairs and operations. Wholly owned subsidiary Timeless Strategy Limited would solely be responsible for investment holding for the Group's strategic investments. The Group shifted control of all operational matters inside the PRC from Guangzhou to Beijing to better reflect the expected increase in business activities in the capital in the run-up to new developments such as her imminent accession to the WTO and the coming of the 2008 Olympic Games. The Group eliminated duplicate marketing and sales departments and put in their places a vertical operational hierarchy, furthering the unifying process of technology market and market technology. What used to be R&D was taken over by the operation of Tian Tai Action (TTA). All these actions combined paved the way for the enhancement of the Group's technical competence in software embedding into hardware, and in software inclusion into system integration and software system control.

With regard to affiliates whom, by definition, the Group did not have control, consolidation meant negotiating a course toward a win-win conclusion. The Group contributed its superior technologies in its consolidated platform, its experience in the capital market and its excellent namesake in Hong Kong, the PRC and the US with the aim to attain better profitability for the affiliates, to promote their progress toward their goal of listing and to strengthen mutual co-operation among themselves and with the Group.

These companies were selected based on the Group's three criteria of business, technology and profitability, and were outstanding in terms of quantity and quality. They varied in the nature of the businesses in which they engaged, and in the areas of expertise they possessed. Through consolidation, these diverse forces were harnessed around the Group's software development focus, with two results:

1. As these affiliates are both strategic customers and strategic partners, they have become reliable constituents in the Group's business network.

2. The benefits of a market and technology interaction were in evidence from this closely linked relationship. Being affiliates, the Group placed high priority for the efficient and speedy completion of their orders. In addition to the volume and value generated therefrom, the Group's engagement to develop technology platforms and other projects for the affiliates provided the Group the opportunity to gain invaluable front line market intelligence. In a broader perspective then, the projects were like laboratory work and the Group stood to benefit, to a large extent, more from market information thus gleaned in terms of specific market needs and clear software development directions. Development costs would thus be reduced and risks minimised.

These, in turn and in time, would bring benefits to our affiliates.

Progress and business developments as a result of the consolidation process described above were many. The business of our US affiliate, under our direction has regained its momentum and is charging ahead. The second phase of infrastructural developments at the Zhuhai Southern Software Park was running in parallel with the Park's network system implementation. Adding up the seemingly unrelated business transactions such as the education networks in Yunnan, Guizhou and Ningxia (loosely, Timeless Western China Group), and the securities portal in Shenzhen in the PRC and in the heavy metal trading portal for Asia-Steel.com and the B2B vortals (vertically integrated portals) for the Pro-Market group in Hong Kong, one could see the crude form of a wide-reaching e-Commerce platform. Investments and service projects of substantial value made by the Group during the period under review, such as the Information Port project in Tianjin, the four IT infrastructure projects in Ningxia Hui Autonomous Region (Province) and the provisionally intended Timeless-Tsinghua University development effort would in time combine into one mass of technological excellence capable of breaking through all imaginable barriers in front of China's full and final Informatisation. In the meantime, the previously reported plans of certain affiliates of the Group in the process of respectively seeking a listing on Nasdaq in the US or the Growth Enterprise Market in Hong Kong have largely remained in place. They have our wholehearted support.

From a beginning as a software company with solid credentials in industry knowledge and development capability to today's size and multinational reach, mainly through the growth of its affiliates, the Group has come a long way in its bid to validate its dedication to the belief that software development is the single most important success element for the Group. The Group's business model, which is uniquely Timeless, has produced some initial yet impressive results.

The company-wise consolidation in the quarter was undertaken to ensure that the Group could carry this initial success to its final destination.

Development Plan

Consolidations and expansions in the Group's five-year history had never been sequential affairs, but were, more appropriately, concurrent and interactive events. The emphasis of the planning done during the quarter involved fitting and matching the well-known Timeless triangles to concrete strategies and actual operation procedures or modes. The Timeless triangles are: "Hong Kong, China, USA"; "Technology, Market, Talent"; "ITP (Information Technology Platform), TTA (Tian Tai Action), TPP (Timeless Platform Products)"; and "Platform, Development, Standard".

Two guiding principles dictated the determination and adoption of these strategies and modes:-

Technology Re-development. At Timeless, technology means and is re-development. Development work presently undertaken by the Group involves blending and building upon and around existing technology and products, and past development efforts of the Group and other professionals or organisations. The projects to develop seven large scale Platform Products at and jointly with Tsinghua University will serve as a good real life example of this principle of re-development. Collective energies will firstly be directed toward consolidating and amalgamating the Timeless ITP, TTA and TPP with the fruits and experience of decades of researches and development accumulated at Tsinghua University and in the PRC, plus certain applicable technology from the US to form the technology back-bone or base on which further development or re-development for the final Platform Products will be carried out.

Market Re-utilisation. At Timeless, market means and is re-utilisation. Actions relating to the market are totally guided by its current trends and a "market", once gained, will be explored and exploited to its fullest so as to extend or expand the Group's market share. In the US, as an example, there is perceived ample room for re-utilising the Army's language translation mechanism and the Global Positioning System much demanded by its media. The ventures and projects in Zhuhai Southern Software Park, Tianjin, Guizhou and Ningxia again well illustrate the immense success achievable in a relatively short period of time through the appropriate administration of market re-utilisation in the PRC where leadership and support provided by the government are of paramount importance in attaining wide and deep market penetration in that country.

Progresses made in the period through the application of technology re-development and market re-utilisation can be categorised into four areas and are recounted below.

On geographical regions, meaning Hong Kong, China and USA, the Group's sentry operation in New York has set the stage where the interaction of market factors between and around these regions comes into play. These factors are country-specific, in that the US provides the market while Hong Kong and China supply the management talent and technical resources to satisfy that demand to include developing and completing major projects in the US. This business model, not attempted by Hong Kong IT companies before, is operating well.

On technology, a stable team of elite talent internally complemented by close strategic co-operation established in the period between the Group and Tsinghua University externally are expected to provide the Group with technology support which will be absolute and certain, and the best training field for talented personnel. The environment where technology, market and talent can freely interact has thus been created, which in time will translate into market and profit, effectively turning technology into fortune.

On product, the task of fine-tuning the integration of ITP, TTA and TPP is being handled by a mission-specific team. The wide variety of software and applications required to be developed for the many technology platforms adopted by our affiliates and other customers of substance would not only guide the Group in pinpointing the direction for its own products, but also provide its staff with the perfect arena where they would gain invaluable hands-on experience in the techniques and solutions that will become inseparable parts of the Timeless Platform Products. Ten Platform Products are under development at the moment.

On standard, in addition to the Group's own component-based platform for e-Commerce, three are being developed by the Group in conjunction with various parties. They comprise: a nation-wise standard intended for a component-based network application platform; a world standard for search engines; and the unified network management standard for the Zhuhai Southern Software Park. The platform standard for China's Informatisation is in pilot runs in Tianjin, Beijing and at the Timeless Western China Group. A project worth RMB2.9 million between the Group and Beijing Sports Bureau is powering ahead, with the e-Government standard for the PRC right on its heels.

These far-reaching and wide-ranging development plans are all progressing smoothly.

Looking Forward

The consolidations and expansions implemented in the current quarter were designed to prepare the Group for this historic moment and the opportunities that are certain to come rushing as China readies herself for the pending accession to the WTO and the hosting of the Olympic Games. By its early entry in the PRC and the solid foundation since laid, the Group has gained a commanding lead in this race of the century and is well poised to propel itself onto a higher plane of profitability. That is, if the Group does not overly exert itself.

Ahead, as the Group stares at the most challenging moment of its history, it remains cautiously optimistic about the remaining periods of the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 30 June 2001, the interests of the directors and chief executives in the shares and options 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:

(a) Ordinary shares of the Company

Name	Shares	
	Personal interests	Corporate interests
Mr. Cheng Kin Kwan	61,080,000	—
Mr. Law Kwai Lam	10,000,000	28,325,000*
Mr. Chung Yiu Fai	2,700,000	—
Ms Leung Mei Sheung, Eliza	1,030,000	—
Mr. Lin Kai Horng	250,000	—
Ms Wong Wai Ping, Mandy	700,000	—
Ms Chan Vivien	50,000	—

Mr. Cheng Kin Kwan is an initial management shareholder as defined in Rule 13.15(2) of the GEM Listing Rules. His holding represents 7.8% of the issued share capital of the Company.

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

(b) **Options to subscribe for ordinary shares of the Company**

	As at 31 March 2001	Options Granted during the period	Exercised	As at 30 June 2001
Mr. Cheng Kin Kwan	1,500,000	500,000	—	2,000,000
Mr. Law Kwai Lam	800,000	200,000	—	1,000,000
Mr. Chung Yiu Fai	1,000,000	200,000	—	1,200,000
Ms Leung Mei Sheung, Eliza	1,000,000	200,000	—	1,200,000
Mr. Lin Kai Horng	1,000,000	200,000	—	1,200,000
Ms So Mi Ling Winnie	300,000	200,000	—	500,000
Ms Wong Wai Ping, Mandy	800,000	200,000	—	1,000,000
Ms Zhang Hong	300,000	200,000	—	500,000

The options were granted under the Share Option Scheme approved by the shareholders at an extraordinary general meeting on 21 November 2000. The options are exercisable at varying prices ranging from HK\$0.63 to HK\$0.818 per share at any time within three years commencing one year after the respective dates of offer of the grants.

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held in trust for the Group, at 30 June 2001, 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.

Save as disclosed above, 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

At 30 June 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholder's interest, being 10% or more of the Company's issued share capital. This is in addition to the interests of the directors and chief executives disclosed above.

Name	Number of shares	Percentage of issued share capital
Crimson Asia Capital Limited, L.P.	122,357,480	15.62%

COMPETING INTEREST

Save as disclosed herein, the directors are not aware of, as at 30 June 2001, any business or interest of each director, 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

ING Barings Asia Limited ("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.

To the best knowledge of ING Barings, none of ING Barings, its directors, employees and associates, were interested in the shares of the Company as at 30 June 2001.

On behalf of the Board
Cheng Kin Kwan
Chairman

Hong Kong, 13 August 2001