

ThinSoft

THINSOFT (HOLDINGS) INC
博軟(控股)有限公司



First Quarterly Report **2002**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED ("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 report, for which the directors of ThinSoft (Holdings) Inc collectively and individually accept full 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 ThinSoft (Holdings) Inc. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material aspects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

UNAUDITED RESULTS

The board of directors of ThinSoft (Holdings) Inc (the “Company”) is pleased to announce the unaudited combined profit and loss account of the Company and its subsidiaries (collectively referred to as the “Group”) as follows:

		For the three months ended 31 March	
		2002	2001
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
TURNOVER	2	6,488	5,808
Cost of sales		(2,565)	(3,171)
Gross profit		3,923	2,637
Other revenue		142	26
Selling and distribution expenses		(170)	(150)
General and administrative expenses		(2,606)	(2,404)
Other operating expenses		(297)	(185)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		992	(76)
Finance costs, net		–	(5)
PROFIT/(LOSS) BEFORE TAX		992	(81)
Tax	3	(323)	–
PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		669	(81)
EARNINGS/(LOSS) PER SHARE	4		
– Basic		HK0.16cent	HK(0.02)cent
– Diluted		HK0.14cent	N/A

Notes:

1. Group reorganization and basis of presentation

Group reorganization

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands on 28 September 2001. Pursuant to a group reorganization (the "Group Reorganization") to rationalize the structure of the Group in preparation for the listing of the Company's shares on The Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 23 February 2002. Further details of the Group Reorganization are set out in the Company's prospectus (the "Prospectus") dated 19 February 2002.

Basis of presentation

The Group Reorganization has been accounted for by the Company using merger accounting method in accordance with the Statement of Standard Accounting Practice ("SSAP") No. 2.127 "Accounting for Group Reconstructions". The unaudited combined results of the Group included the results of all companies now comprising the Group as if the current group structure had been in existence throughout the periods covered by this report or since their respective dates of incorporation, where this is a shorter period.

All significant transactions and balances among the companies comprising the Group have been eliminated on combination.

2. Turnover

Turnover represents the net invoiced sales and services rendered, less discounts, returns, and applicable goods and services taxes.

3. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the period under review.

ThinSoft Pte Ltd, a company incorporated in Singapore, is subject to Singapore income tax. Singapore income tax has been provided at the rate of 24.5% (2001: 24.5%) on the estimated assessable profits arising in Singapore for the period ended 31 March 2002.

ThinSoft (USA) Inc, a company incorporated in the State of Delaware in the United States of America and operating in the State of California in the United States of America, is subject to the United States federal income tax at progressive rates of between 15% to 39%, and California state corporate tax at a rate of 8% (2001: 8%) for the period ended 31 March 2002, on its estimated assessable profits arising on a world wide basis.

There were no unprovided deferred tax in respect of the period under review (2001: Nil).

4. Earnings/loss per share

The basic earnings/loss per share for the three months ended 31 March 2002 and 31 March 2001 are calculated based on the unaudited combined net profit/loss attributable to shareholders of the Company for the three months ended 31 March 2002 of HK\$669,000 (2001: net loss of HK\$81,000) and 423,611,111 shares (2001: 375,000,000 shares) deemed to have been issued and issuable during the period under review on the assumption that the Group Reorganization and the subsequent capitalization issue of 372,000,000 shares of the Company had been effective on 1 January 2001.

The calculation of the diluted earnings/loss per share for the three months ended 31 March 2002 is based on the unaudited combined net profit/loss attributable to shareholders of the Company for the three months ended 31 March 2002 and 468,620,271 shares, being 423,611,111 shares as used in the calculation of basic earnings/loss per share, and the weighted average of 45,009,160 shares assumed to have been issued at no consideration on the deemed exercise of the pre-IPO share options.

A diluted loss per share for the three months ended 31 March 2001 has not been presented as no diluting events existed during that period.

5. Dividends

The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2002 (2001: Nil).

6. Reserves

	Share premium <i>HK\$'000</i>	Exchange translation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	–	390	6,840	1,659	8,889
Exchange translation differences	–	(282)	–	–	(282)
Loss for the period	–	–	–	(81)	(81)
At 31 March 2001	–	108	6,840	1,578	8,526
At 1 January 2002	–	(47)	6,840	5,447	12,240
Premium on issuance of shares	43,750	–	–	–	43,750
Capitalization issue	(18,600)	–	–	–	(18,600)
Share issuance expenses	(16,649)	–	–	–	(16,649)
Exchange translation differences	–	20	–	–	20
Profit for the period	–	–	–	669	669
At 31 March 2002	8,501	(27)	6,840	6,116	21,430

The capital reserve of the Group represents the difference between the aggregate nominal value of the share capital of subsidiaries acquired by the Company and the nominal value of share capital of the Company issued as consideration in exchange therefor.

BUSINESS REVIEW

During the period under review, the Group was principally engaged in the development and distribution of Thin Computing solutions and related products.

Newly developed BeTwin 2000/XP

BeTwin is a software that enables two to five users to share the computing power of a single computer, i.e. the host personal computer ("Host PC"). It creates a virtual personal computer ("PC") station for each user simultaneously and independently operates in each station, similar to the user operating on the Host PC.

It runs and displays information directly from Disk Operating System, Windows and Java applications of the Host PC without any compression or decompression of the displayed information required, thereby providing a multi-user platform for additional users to be added to a Host PC.

The newly developed BeTwin 2000/XP can easily be installed into the Host PC which operates on Windows 2000 or Windows XP operating system and there is no new or additional network infrastructure or network management required. It is basically network independent. The newly developed BeTwin 2000/XP provides flexibility to customers and hence enlarges the potential market for BeTwin.

Entered into an OEM license agreement with Great Wall

In March 2002, the Group entered into an Original Equipment Manufacturer license agreement (the "Agreement") with China Great-Wall Computer ShenZhen Co., Ltd. ("Great Wall"), a subsidiary of Great Wall Technology Company Limited, to supply its latest flagship product BeTwin 2000/XP to Great Wall. Great Wall Technology Company Limited is the leading information technology enterprise in the People's Republic of China ("PRC").

Under the Agreement, Great Wall will promote, spearhead market penetration and distribution of a range of monitors, and monitor plus personal computer, bundled with BeTwin 2000/XP, in the PRC for the market segments of education and training, small and medium size enterprises.

Participation in CeBIT Hannover 2002, Germany

The Group participated in CeBIT Hannover 2002 which held in Germany between 13 March and 20 March 2002.

CeBIT Hannover is one of the world's biggest and most significant tradeshows for information technology and telecommunications products, services and solutions. CeBIT Hannover shows the latest developments in the information technology and telecommunications global industry. As such, participation in the tradeshow provides effective exposure for the Group's flagship products BeTwin and WinConnect to thousands of international suppliers and users.

BeTwin and WinConnect allow users to run applications on the world's most predominant operating systems Windows and Linux respectively.

At CeBIT Hannover 2002, the Group officially launched its latest BeTwin solution – BeTwin 2000/XP.

Financial Performance

The Group's unaudited turnover for the three months ended 31 March 2002 amounted to approximately HK\$6.5 million, an increase of 11.7% over the corresponding previous quarter.

Gross profit of approximately HK\$3.9 million with a gross profit margin of 60.5% for the three months ended 31 March 2002 compared with the gross profit of approximately HK\$2.6 million at a gross profit margin of 45.4% for the corresponding period in the previous quarter. Gross profit increased significantly from approximately 45.4% for the three months ended 31 March 2001 to 60.5% for the period under review due to the high profit margin contributed by distribution software of BeTwin and WinConnect which were launched in May 2001 and October 2001 respectively.

Profit attributable to shareholders for the quarter under review amounted to HK\$669,000 compared with the loss attributable to shareholders amounted to HK\$81,000 for the corresponding previous quarter. The improvement mainly due to the increase in turnover and relatively higher gross profit margin of the Group's newly launched flagship products, BeTwin and WinConnect.

For the period under review, the Group financed its operations with internal working capital and did not have any bank loans. As at 31 March 2002, the Group maintained a healthy and cash rich financial position with approximately HK\$45.6 million cash on hand. Taking into consideration the existing financial resources available to the Group, it is anticipated that we should have adequate financial resources to meet our ongoing operating and development requirements.

Listed on GEM of the Stock Exchange

The Company was successfully listed on GEM of the Stock Exchange on 27 February 2002. The Company had raised HK\$50 million from the placing of 125,000,000 new shares (the "Placing") at HK\$0.40 per share. It represented 25% of the Company's issued share capital following the completion of the Placing.

The net proceeds from the Placing, after deductions for relevant expenses, was approximately HK\$33 million. The Group intends to apply these proceeds in the manner disclosed in the Prospectus.

OTHER INFORMATION

Directors' interests in shares

At 31 March 2002, the interests of the directors and their associates in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), are set out below:

Name of director	Type of interest	Percentage of holding
Ngiam Mia Hai Bernard	other	(note)
Ngiam Mia Hong Alfred	other	(note)

Note: IPC Corporation Ltd ("IPC"), the ultimate holding company of the Company, is a company incorporated under the laws of Singapore and whose securities are listed on The Singapore Exchange Securities Trading Limited. At 31 March 2002, approximately 65.3% of its issued share capital of IPC is held by the public. At the date of this report, IPC holds 75% (or 375,000,000 shares) of the issued share capital of the Company.

As at 31 March 2002, each of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred directly held approximately 1.4% and 1.4% respectively in the issued share capital of IPC and each of them further owned approximately 0.001% of IPC's issued share capital as a result of the conversion shares received by each of them pursuant to a scheme of arrangement of IPC.

Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin are the brothers of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred. As at 31 March 2002, Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Essex Investment (Singapore) Pte Ltd (whose entire issued share capital is held by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in the proportion of 50:50) together beneficially owned approximately 22.2% of the issued share capital of the IPC.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity of debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Substantial shareholders

As at 31 March 2002, the following interests of 10% or more of the share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of holding
IPC Corporation Ltd	375,000,000	75%

Note: IPC Corporation Ltd, the ultimate holding company of the Company, is a company incorporated under laws of Singapore and whose securities are listed on The Singapore Exchange Securities Trading Limited.

Save as disclosed above, no person, other than the directors of the Company whose interests are set out in the section “Directors’ interests in shares” above, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

Directors’ rights to acquire shares

Save as disclosed under the heading “Share option schemes” below, and other than in connection with the Group Reorganization in preparation for the Company’s placing, at no time since its incorporation was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Share option schemes

Pursuant to a pre-IPO share option scheme (the "Pre-Scheme") adopted by the Company on 2 February 2002, the Company had granted pre-IPO share options on the Company's ordinary shares in favour of 26 employees (including 4 executive directors of the Company) of the Group, details of which are as follows:

Name of participant	Number of share options granted on 2 February 2002	Exercise period of share options	Exercise price per share <i>HK\$</i>
Directors			
William Michael Driscoll	3,600,000	27 February 2003 to 1 February 2008	0.08
Ngiam Mia Hai Bernard	7,600,000	27 February 2003 to 1 February 2008	0.08
Ngiam Mia Hong Alfred	7,200,000	27 February 2003 to 1 February 2008	0.08
Wong Kui Ming	3,600,000	27 February 2003 to 1 February 2008	0.20
Directors of subsidiaries			
Ngiam Mia Je Patrick	3,600,000	27 February 2003 to 1 February 2008	0.08
Ngiam Mia Kiat Benjamin	3,600,000	27 February 2003 to 1 February 2008	0.08
Lauw Hui Kian	3,600,000	27 February 2003 to 1 February 2008	0.08
Other employees	19,800,000	27 February 2003 to 1 February 2008	0.08-0.28
	52,600,000		

No further options will be granted under the Pre-Scheme after listing of the Company's shares on GEM. Upon exercise of all outstanding pre-IPO share options in full, a total of 52,600,000 shares, representing in aggregate approximately 10.52% of the issued share capital of the Company immediately following the completion of the Placing. All these options were granted on 2 February 2002 and may be exercised from 27 February 2003 to 1 February 2008. No pre-IPO share options have, therefore, been exercised up to the date of this report.

On the same date as the adoption of the aforesaid Pre-Scheme, a further share option scheme (the "Post-Scheme") was also approved by the Company. No share options were granted by the Company under the Post-Scheme up to the date of this report.

Save as disclosed above, and other than in connection with the Group Reorganisation in preparation for the Placing, at no time since its incorporation was the Company, any of its holding companies or subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Sponsor's interest

Shares of the Company were listed on GEM of the Stock Exchange on 27 February 2002 by way of a placement of 125,000,000 new shares at an issue price of HK\$0.40. The sponsor of the Placing was ICEA Capital Limited (the "Sponsor").

The Sponsor has confirmed, up to and as of the date of this report, that none of the Sponsor nor its associates, directors or employees has or may have, as a result of the Placing, have any interest in any class of securities of the Company or any of member company of the Group (including options or rights to subscribe for such securities).

Pursuant to a sponsor agreement dated 18 February 2002 between the Company and the Sponsor. The Sponsor is entitled to receive a fee for acting as the Company's sponsor for the period commencing from 27 February 2002 and ending on (and including) the last day of the second full (and not part thereof) financial year after the Company's listing on GEM.

Competition and conflict of interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

Purchase, redemption or sale of listed securities

The Company's shares were listed on GEM on 27 February 2002. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities since that date.

Audit committee

The Company established an audit committee on 2 February 2002 with written terms of reference in compliance with Rules 5.23 and 5.24 of GEM Listing Rules. The primary duties of the audit committee are (i) to review the Company's annual reports and accounts, half-yearly and quarterly reports, (ii) to provide advice and comments thereon to the board of directors, and (iii) to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises three members, Lee Chung Mong and Chen Tzyh-Trong, the independent non-executive directors of the Company and Wong Kui Ming, the executive director of the Company. The Group's unaudited results for the period ended 31 March 2002 have been reviewed by the audit committee, who was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

On behalf of the board

William Michael Driscoll

Chairman and Executive Director

Hong Kong, 13 May 2002