TIMELESS SOFTWARE LTD.

Interim Report

for the quarter ended 30 June 2002

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 three months ended 30 June 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

		Three months ended 30 June	
		2002	2001
	Note	***HK$'000***	*HK$'000*
Turnover	2	**4,785**	15,935
Other revenues	2	**617**	2,261
		5,402	18,196
Cost of resale of computer software and hardware		**(2,692)**	(797)
Staff costs		**(5,967)**	(8,022)
Depreciation and amortisation expenses		**(3,050)**	(3,315)
Other operating expenses		**(3,240)**	(3,932)
Impairment losses on investment securities		**(3,260)**	—
Provision for investment deposit		**(4,107)**	—
Operating (loss)/profit		**(16,914)**	2,130
Finance costs	3	**(355)**	(1,476)
Share of losses of			
Jointly controlled entities		**(1,387)**	(207)
Associated companies		**(3,640)**	—
(Loss)/profit before taxation		**(22,296)**	447
Taxation	4	**—**	—
(Loss)/profit after taxation		**(22,296)**	447
Minority interests		**102**	138
(Loss)/profit attributable to shareholders		**(22,194)**	585
Basic (loss)/earnings per share	5	**(2.35 cents)**	0.08 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, resale of computer hardware and software, software development, magazine publishing and investment holding. Revenues recognised during the period are as follows:

	Three months ended 30 June	
	2002	2001
	HK$'000	*HK$'000*
Turnover		
Income from provision of computer consultancy services	**1,895**	14,974
Resale of computer hardware and software	**2,890**	914
Advertising income	**—**	46
Subscription income	**—**	1
	4,785	15,935
Other revenues		
Realised gain on investment securities	**—**	67
Interest income		
- Bank	**454**	1,968
- Convertible loan note	**—**	60
Write back of long outstanding payables and provisions	**148**	126
Net exchange gains	**—**	22
Miscellaneous income	**15**	18
	617	2,261
Total revenues	**5,402**	18,196

3. **Finance costs**

	Three months ended 30 June	
	2002	2001
	HK$'000	*HK$'000*
Interest on convertible note	**—**	642
Interest on bank loan wholly repayable within 5 years	**349**	826
Interest element on finance lease	**6**	8
	355	1,476

4. **Taxation**

No provision for Hong Kong profits tax has been made in the accounts as the Group has no estimated assessable profit for the period and the corresponding period in previous year.

No provision for income tax of the People's Republic of China ("PRC") has been made in the accounts as the two subsidiaries in the PRC have no assessable profit for the period under review. Pursuant to the tax rules in the PRC, the subsidiary in Guangzhou is entitled to 100% tax relief for the year ended 31 December 2001 and 50% tax relief for the three years ending 31 December 2004. The subsidiary in Beijing is entitled to 100% tax relief for the two years ending 31 December 2003 and 50% tax relief for the three years ending 31 December 2006.

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

5. **(Loss)/earnings per share**

The calculation of the basic (loss)/earnings per share is based on the Group's loss attributable to shareholders for the three months ended 30 June 2002 of HK$22,194,000 (2001: profit of HK$585,000) and the weighted average number of 944,569,789 shares (2001: 770,137,362 shares) in issue during the period.

No diluted loss per share has been presented for the three months ended 30 June 2002 as there is no material dilution arising from the share options granted by the Company.

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 convertible note issued has anti-dilutive effect.

6. **Movement of reserves**

	Share premium *HK$'000*	(Accumulated losses) / retained profit *HK$'000*	Total *HK$'000*
At 1 April 2001	486,203	23,501	509,704
Issue of shares	26,944	—	26,944
Profit attributable to shareholders	—	585	585
At 30 June 2001	513,147	24,086	537,233
At 1 April 2002	617,884	(314,608)	303,276
Issue of shares	4,783	—	4,783
Loss attributable to shareholders	—	(22,194)	(22,194)
At 30 June 2002	622,667	(336,802)	285,865

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the quarter ended 30 June 2002 (2001: Nil).

BUSINESS REVIEW AND OUTLOOK

Results for the period

The Directors continued to take a conservative approach for accounting purposes. The loss for the period was approximately HK$22.2 million compared to a profit of approximately HK$0.6 million during the same period in previous year. This is mainly due to the following:

1. The decrease in turnover from HK$15.9 million to HK$4.8 million as a result of the consistent adoption of a more stringent view on recognising revenue especially for contracts of relatively longer term in nature in mainland China;

2. The provision for impairment losses of investment securities totaling approximately HK$3.3 million mainly as a result of the significant drop in market price of a quoted investment during this quarter;

3. The provision for investment deposit of approximately HK$4.1 million as a result of the provision for impairment losses of the shares of the Company held by a prospective associated company; and

4. The share of losses of associated companies and jointly controlled entities totaling approximately HK$5.0 million mainly as a result of the provision for impairment losses of the shares of the Company held by an associated company and a jointly controlled entity.

Contracts on hand amounted to approximately HK$710 million. All the projects were progressing as planned. Turnover generated from mainland China represents over 90% of the total turnover of the Group during the period. As the Group has substantial contracts on hand in mainland China, it is expected that the level of activities in mainland China will continue to be high in future.

During the period, the Company issued 10,000,000 shares of HK$0.05 each at a consideration of HK$5,300,000 to an independent private investor, KDS China Limited.

Cash-flow and completion cycles

Leveraging on the high-value, long-running projects contracted in mainland China last year and aiming to further strengthen the Group's cash-flow position, the Group has in the quarter increasingly trained its sight on new orders of relatively short-run completion cycle, i.e. those which generally take no more than six months to complete. When properly administered, this type of short-running projects has many possibilities of replicating — vertically into additional enhancement orders, or horizontally into new projects and contracts with companies engaging in the same line of business. Also within the quarter, the Group has attempted, with success, the initiative to devise and design a strategy whereby common elements, or requirements of like characteristics, as specified in different projects, regardless of their respective projected completion cycle or stage, are grouped together, and solutions and applications for them are developed in just one go.

However, such a combine-and-conquer strategy would not be possible or meaningful, if it is not implemented on a consolidated platform.

Whereas the potential benefits expected to be derived from this strategy are not yet evidenced for the quarter under review, solid groundwork has been laid for the Group to improve on its short-term cash-flow position.

Market standard and rapid development

During the period, the Group has devoted extensive efforts in creating a toolset, codenamed "PDE", thereby equipping itself with rapid development capability. "PDE", in simple terms, is an "environment" over and around the Timeless Consolidated Platform (TCP) empowering speedy development and delivery of applications and solutions on the TCP.

Again, this rapid development capability, and its empowerment, would not be possible or meaningful, if they are not implemented on a consolidated platform.

With the above strategy and capability in place, the Group is ready to set out to achieve the key objective it has set for itself for the current year: the winning of at least one market standard.

Cross-platform and cross-markets

The Group's planned expansion into the U.S. market, kick-started around mid-2001, was interrupted by the 9/11 incident and has since been on hold.

The U.S. market, however, is too important a market to ignore, particularly when the Group has built up reservoirs of development resources and has carved out niche market segments in mainland China. The Group, therefore, has reopened the U.S. files, so to speak, and has engaged in discussions with various U.S. groups and organisations with the aim to establishing strategic partnerships or alliances with them. The Group is particularly encouraged by their initial assessment that the Timeless Consolidated Platform (TCP) would be as acceptable, and desirable, in the U.S. market as has been the case in the PRC. Through alliance with one or several of these groups, all of which have substantial local presence, the Group's re-entry in the U.S. market could be accomplished with a minimum of time and costs.

Conclusion

While the overcast overhanging the almighty U.S. economy continued during the period, China continued to rise up to her post-WTO challenges.

On various occasions in the past months and in various of their speeches and dialogues, the President and Premier of the PRC have made it clear that the Chinese government is determined to see the country achieve e-government, e-commerce and e-industry in three years' time. The close correlation between the items on the Chinese government's agenda, as abovementioned, and the contents of work in the Group's contracts on hand should not have escaped the Group's followers. But as is always the case with a venture into a new, unknown territory that, while the Group had correctly anticipated the direction of the market in mainland China and had taken bold steps to position itself for it, the path which the Group had to follow had not been without obstacles and an occasional heavy price to pay. That said, the Group is confident that on the foundation it has built over a period of many years and with the leadership position it now has achieved in the PRC market, the ultimate realisation of its vision will be positive instead of negative.

Nevertheless, the case in point is that the Group shall first endeavour towards a sustainable cash profit, which the Group also has confidence both in the short and long term point of view.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 30 June 2002, 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 HK$0.05 each of the Company

Name of director	Number of shares: Personal interests	Corporate interests	Total
Mr. Cheng Kin Kwan	70,500,000	—	70,500,000
Mr. Law Kwai Lam	10,000,000	28,325,000*	38,325,000
Mr. Chung Yiu Fai	2,420,000	—	2,420,000
Ms Leung Mei Sheung, Eliza	1,030,000	—	1,030,000
Ms Wong Wai Ping, Mandy	1,500,000	—	1,500,000

Mr. Cheng Kin Kwan is an initial management shareholder as defined in Rule 13.15(2) of the GEM Listing Rules. His holding represents 7.43% 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

Name of director	Options: As at 1 April 2002	Granted during the period	Exercised during the period	As at 30 June 2002
Mr. Cheng Kin Kwan	2,800,000	650,000	—	3,450,000
Mr. Law Kwai Lam	1,200,000	—	—	1,200,000
Mr. Chung Yiu Fai	1,700,000	300,000	—	2,000,000
Ms Leung Mei Sheung, Eliza	1,700,000	—	—	1,700,000
Ms So Mi Ling, Winnie	700,000	—	—	700,000
Ms Wong Wai Ping, Mandy	1,500,000	—	—	1,500,000

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$0.445 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 2002, 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 2002, 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 shareholders' interest, 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 of shareholder	**Number of ordinary shares**	**Percentage of issued share capital**
China West Educational Investment Limited*	108,057,374	11.39%
Crimson Asia Capital Limited, L.P.	107,273,503	11.31%

* *This company is a nominee shareholder, holding the shares in trust for Ningxia Educational Information Technology Co., Ltd., in which the Group holds a 25.03% equity interest.*

COMPETING INTEREST

Save as disclosed herein, the directors are not aware of, as at 30 June 2002, 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.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited interim report for the quarter ended 30 June 2002.

On behalf of the Board
Cheng Kin Kwan
Chairman

Hong Kong, 12 August 2002