ThinSoft

THINSOFT (HOLDINGS) INC

博軟(控股)有限公司

Third Quarterly Report 2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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The board of directors of ThinSoft (Holdings) Inc (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") as follows:

UNAUDITED CONSOLIDATED RESULTS

		For the three months ended 30 September		For the nine months ended 30 September	
		2002	2001	**2002**	2001
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*3*	**2,777**	8,726	**14,964**	21,664
Cost of sales		**(1,235)**	(6,034)	**(5,853)**	(11,353)
Gross profit		**1,542**	2,692	**9,111**	10,311
Other income		**173**	37	**323**	787
Selling and distribution expenses		**(276)**	(21)	**(741)**	(258)
General and administrative expenses		**(4,513)**	(1,898)	**(9,637)**	(6,065)
Other operating expenses		**(712)**	(111)	**(1,416)**	(381)
(Loss)/profit from operating activities		**(3,786)**	699	**(2,360)**	4,394
Finance costs, net		**(2)**	(231)	**(2)**	(242)
(Loss)/profit before tax		**(3,788)**	468	**(2,362)**	4,152
Tax	*4*	**121**	(168)	**(460)**	(1,535)
(Loss)/profit attributable to shareholders		**(3,667)**	300	**(2,822)**	2,617
Dividend	*5*	**–**	–	**–**	–
(Loss)/earnings per share	*6*				
– basic		**(0.73) cent**	0.08 cent	**(0.59) cent**	0.70 cent

Notes:

1. 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") on 27 February 2002, 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.

2. 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 comparative figures for the three months and nine months ended 30 September 2001 included the results of all companies involved in the Group Reorganization, which were assumed to have been in existence throughout the said periods or since their respective dates of incorporation, where this is a shorter period. The figures for the nine months ended 30 September 2002 have been prepared as if the Group Reorganization had been completed on 1 January 2002.

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

3. Turnover

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

4. 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 22% (2001: 24.5%) on the estimated assessable profits arising in Singapore for the period ended 30 September 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 8.84% (2001: 8%) for the period ended 30 September 2002, on its estimated assessable profits arising on a world wide basis.

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

5. Dividend

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2002 (2001: Nil).

6. (Loss)/earnings per share

The basic loss per share for the three months and nine months ended 30 September 2002 are calculated based on the unaudited consolidated loss attributable to shareholders of the Company for the three months and nine months ended 30 September 2002 of approximately HK$3,667,000 and HK$2,822,000 respectively (2001: profit of approximately HK$300,000 and HK$2,617,000 respectively) and 500,000,000 shares and 474,816,850 share respectively (2001: 375,000,000 shares and 375,000,000 shares respectively) 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.

A diluted loss per share for the three months and nine months ended 30 September 2002 have not been presented as the effect of any dilution is anti-dilutive.

A diluted earnings per share for the three months and nine months ended 30 September 2001 have not been presented as no diluting events existed during that period.

7. Reserves

	Share premium	Exchange translation reserve	Capital reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2001	–	390	6,840	1,659	8,889
Exchange translation differences	–	(282)	–	–	(282)
Profit for the period	–	–	–	2,317	2,317
At 30 June 2001	–	108	6,840	3,976	10,924
Profit for the period	–	–	–	300	300
At 30 September 2001	–	108	6,840	4,276	11,224
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	–	–	–	845	845
At 30 June 2002	8,501	(27)	6,840	6,292	21,606
Loss for the period	–	–	–	(3,667)	(3,667)
At 30 September 2002	8,501	(27)	6,840	2,625	17,939

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

The Group embarked on a concerted strategy to drive market acceptance, penetration and product development with the emphasis on higher yield revenue margins. These were:

(1) migration to an essentially software solutions product base;

(2) establishing the presence of sales and marketing teams in significant markets, such as the United States and the PRC, to drive market acceptance and penetration, and to pursue Original Equipment Manufacturer ("OEM") relationships in important target markets in Asia and the Americas;

(3) revamping and enhancing the e-commerce infrastructure, and implementation of the Affiliates and Online Resellers Programs; and

(4) continually enriching the software product spectrum through research and development to roll out innovative solutions such as WinConnect Z.

Migration to essentially software solutions product base

The strategy of moving towards an essentially software solutions product base yielded positive contributions with the Group's flagship software product series BeTwin and WinConnect accounting for 73.2% of the total turnover at approximately HK$11 million for the nine months ended 30 September 2002. The rest of the turnover of 26.8% was derived from the sales of other derivative products and services.

The Group's overall turnover was approximately HK$15 million for the nine months ended 30 September 2002 as compared to approximately HK$21.7 million for the same period in last year. The lower turnover is attributable to the strategy of offering an essentially software solutions product base without the previous associated hardware product dimension. This strategy erased the burden of carrying associated hardware inventory costs and positively resulted in a significant increase in turnover from the sales of software to approximately HK$11 million for the nine months ended 30 September 2002 as compared to approximately HK$2 million for the corresponding period in previous year. The sterling increase in the sales of software substantiates the increasing market acceptance and penetration of the Group's flagship software product series BeTwin and WinConnect.

Establishing market presence

In significant markets, such as the United States and the PRC, the Group's market penetration drive is in full gear. This is evident in:

(1) the presence of experienced sales and marketing teams focused on driving the flagship software product series to the target markets; and

(2) the establishment of strategic OEM relationships with significant market partners.

The sales and marketing efforts are already evident in WinConnect's rapid market recognition for its versatility through its increasing deployment within the information technology network infrastructures of Fortune 500 companies such as Raytheon as well as small to medium size enterprises. WinConnect has also been implemented by government agencies as well as in schools and universities.

During the period under review, the Group also established collaborative marketing arrangements such as that with Micro Star International Co. Ltd ("MSI") for BeTwin 2000/XP. MSI is the world's top video graphics accelerator ("VGA") card manufacturer with a monthly shipment exceeding one million units. MSI has subsidiaries and service centres located throughout the world including Australia, France, Germany, Hong Kong, the Netherlands, and the United States. The effect of these strategic market relationships will drive market penetration and boost sales.

Revamping and enhancing the e-commerce infrastructure

The revamp and enhancement of the e-commerce infrastructure to drive comprehensive global online sales through innovative marketing initiatives. Other key initiatives were the implementation of Affiliates and Online Resellers Programs for extensive and focused reach to target markets.

Continually enriching and broadening the product spectrum

The Group continually enriches and broadens the product spectrum through market research and research and development to offer relevant vertical market software solutions. WinConnect Z, which was launched in end of the third quarter of 2002, is an instance of a recent addition to the WinConnect software suite with wide market reach. WinConnect Z enables Linux-based devices such as PDAs to access Windows applications. For instance, the Group established a market collaboration with Sharp to offer WinConnect Z on its PDA – the Zaurus. WinConnect Z allows Sharp Zaurus PDA users the ability to access the Windows application environment.

The Group has gained industry recognition for its ongoing emphasis on developing and delivering leading edge Thin Computing software solutions. An instance of this is WinConnect Z winning the prestigious Best of Show Award at Planet PDA San Francisco 2002.

Further new software products are expected to be launched in the fourth quarter of 2002.

Overall impact

The outlined sales and marketing, e-commerce and software product development efforts will have positive and imminent impact over the next financial quarters.

Financial Review

The Group reported an unaudited gross profit of approximately HK$9.1 million at a margin of 60.9% for the nine months ended 30 September 2002 compared with an unaudited gross profit of approximately HK$10.3 million at a margin of 47.6% for the corresponding period in the previous year. The increase in gross profit margin is attributable to the change in product mix to offer an essentially software solutions product base for the Group's flagship software product series BeTwin and WinConnect.

As a result of the Group's strategic efforts in sales, marketing and products development, the associated selling and distribution expenses, general and administrative expanses incurred for the period under review were increased accordingly.

The administrative expenses for the nine months ended 30 September 2002 increased to approximately HK$9.6 million as compared to approximately HK$6.1 million in the corresponding period of last year. The increase was mainly a result of enhancing the United States market presence, particularly in the sales and marketing and e-commerce operations of the United States subsidiary, ThinSoft (USA) Inc, since the end of 2001. As such, the corresponding general and administrative expenses increased accordingly. Further, the Group also incurred additional routine and mandatory expenses after the shares of the Company were listed on GEM on 27 February 2002.

The selling and distribution expenses increased as compared with the corresponding period in previous year. This was mainly due to the strategic sales and marketing expenses associated with driving and promoting the new suites of BeTwin and WinConnect software solutions for the period under review.

The Group continues to be in a strong financial position. The Group's net assets as at 30 September 2002 were approximately HK$42.9 million (2001: approximately HK$11.2 million).

Cash and bank balances as at 30 September 2002 was approximately HK$34.8 million (2001: HK$9.4 million). There were no bank borrowings as at 30 September 2002 (2001: Nil).

The Group continues to adopt a conservative treasury policy with all bank deposits in either Hong Kong dollars, or in the local currencies of the operating subsidiaries, keeping a minimum exposure to foreign exchange risks.

OTHER INFORMATION

Directors' interests in shares

At 30 September 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 30 September 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 30 September 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 30 September 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 securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Substantial shareholders

As at 30 September 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' interests in contracts

Save for transactions in connection with the Group Reorganization in preparation for the placing and as disclosed under the heading "Share option scheme" below, no director had a significant beneficial interest, directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party during the period under review.

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 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 *HK$*
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 placing and the capitalization at a subscription price ranging from 20% to 70% of the issue price of HK$0.40 per share. 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. However, due to the termination of employment of certain employees, options comprising an aggregate of 100,000 underlying shares of the Company had been lapsed as at 30 September 2002. As at 30 September 2002, the outstanding options pursuant to the Pre-Scheme amounted to a total of 52,500,000 underlying shares of the Company.

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 Company's 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

ICEA Capital Limited (the "Sponsor") has confirmed, up to and as of the date of this report, that none of the Sponsor nor any of its directors, employees or their respective associates (as defined in the GEM Listing Rules) has or may 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 has received and will receive a fee for acting as the Company's sponsor for the period up to 31 December 2004.

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.

Compliance with Rules 5.28 to 5.39 of the GEM Listing Rules

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on GEM on 27 February 2002.

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, independent non-executive directors of the Company and Wong Kui Ming, the non-executive director of the Company. The Group's unaudited results for the period ended 30 September 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 November 2002