



TIMELESS SOFTWARE LTD.

Interim Report

for the quarter ended 30 September 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.

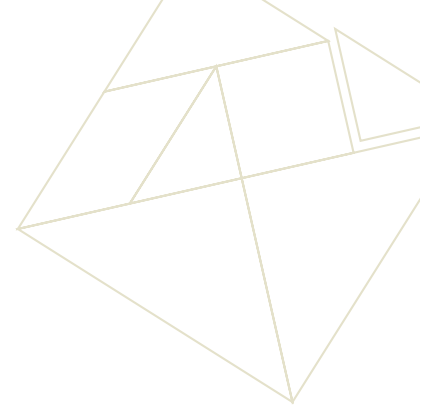


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Independent Review Report

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**Deloitte
Touche
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INDEPENDENT REVIEW REPORT TO THE DIRECTORS OF TIMELESS SOFTWARE LIMITED

Introduction

We have been instructed by the directors of Timeless Software Limited ("the Company") to review the interim financial report set out on pages 3 to 11.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquires of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2002.

Without modifying our review conclusion, we draw to your attention that the following disclosed in the interim financial report have not been reviewed in accordance with SAS 700: condensed consolidated income statement and cash flow statement for the six months ended 30 September 2001; condensed consolidated income statement for the three months ended 30 September 2002 and comparative figures thereto; and condensed consolidated statement of changes in equity for the six months ended 30 September 2001.

DELOITTE TOUCHE TOHMATSU
8 November 2002

Condensed Consolidated Income Statements

For the three and six months ended 30 September 2002

	Notes	(Unaudited) Three months ended 30 September		(Unaudited) Six months ended 30 September	
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	9,158	29,288	13,943	45,223
Other revenue		581	2,165	1,198	4,426
Cost of sales of computer software and hardware		(2,822)	(1,978)	(5,514)	(2,775)
Staff costs		(5,014)	(9,394)	(10,981)	(17,416)
Depreciation and amortisation		(2,926)	(4,396)	(5,976)	(7,711)
Other operating expenses		(6,340)	(12,858)	(9,580)	(16,790)
Loss on disposal of listed investment securities		(1,108)	—	(1,108)	—
Write back/impairment in value of investment securities		318	—	(2,942)	—
Impairment in value of land and buildings		(50,000)	—	(50,000)	—
Impairment in value of intangible assets		(2,171)	—	(2,171)	—
Impairment in value of other investments		(1,404)	—	(1,404)	—
Allowances for deposit made for the investment in an associate		—	—	(4,107)	—
Operating (loss) profit		(61,728)	2,827	(78,642)	4,957
Finance costs		(291)	(1,276)	(646)	(2,752)
Share of results of associates		143	—	(3,497)	—
Share of losses of jointly controlled entities		(182)	(115)	(1,569)	(322)
(Loss) profit before taxation		(62,058)	1,436	(84,354)	1,883
Taxation	4	(185)	—	(185)	—
(Loss) profit before minority interests		(62,243)	1,436	(84,539)	1,883
Minority interests		380	838	482	976
(Loss) profit attributable to shareholders		(61,863)	2,274	(84,057)	2,859
(Loss) earnings per share	6	(6.52) cents	0.28 cents	(8.88) cents	0.36 cents
- Basic					

Condensed Consolidated Balance Sheet

At 30 September 2002

	Notes	(Unaudited) 30 September 2002 HK\$'000	(Audited) 31 March 2002 HK\$'000
Non-current assets			
Property, plant and equipment	7	155,920	211,633
Intangible assets	8	5,000	4,233
Interest in associates		15,092	18,589
Interests in jointly controlled entities		30,941	29,161
Investment securities		21,301	15,321
Pledged bank deposits		5,000	35,000
Deposits made for the investments in an associate and a jointly controlled entity		21,207	15,408
		254,461	329,345
Current assets			
Trade and other receivables	9	19,271	14,150
Other investments		—	1,404
Taxation recoverable		4,995	6,233
Bank balances and cash		42,023	56,429
		66,289	78,216
Current liabilities			
Trade and other payables	10	8,740	8,720
Obligations under a finance lease due within one year		90	86
Current portion of long-term bank loan - secured		12,500	15,000
		21,330	23,806
Net current assets		44,959	54,410
Total assets less current liabilities		299,420	383,755
Non-current liabilities			
Obligations under a finance lease due after one year		150	196
Long-term bank loan - secured		25,000	30,000
		25,150	30,196
Minority interests		2,857	3,340
Net assets		271,413	350,219
Capital and reserves			
Share capital		47,443	46,943
Reserves		223,970	303,276
Shareholders' funds		271,413	350,219

The interim financial report on pages 3 to 11 were approved and authorised for issue by the Board of Directors on 8 November 2002 and are signed on its behalf by:

Cheng Kin Kwan
Director

Law Kwai Lam
Director



Condensed Consolidated Statement of Changes in Equity

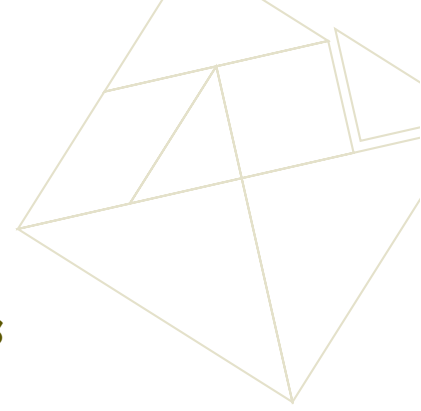
For the six months ended 30 September 2002

	(Unaudited) Share capital HK\$'000	(Unaudited) Share premium HK\$'000	(Unaudited) (Deficit) retained profits HK\$'000	(Unaudited) Total HK\$'000
At 1 April 2001	37,575	486,203	23,501	547,279
Issue of shares	3,965	73,744	—	77,709
Profit attributable to shareholders	—	—	2,859	2,859
At 30 September 2001	<u>41,540</u>	<u>559,947</u>	<u>26,360</u>	<u>627,847</u>
At 1 April 2002	46,943	617,884	(314,608)	350,219
Issue of shares	500	4,800	—	5,300
Expenses incurred in connection with the issue of shares	—	(49)	—	(49)
Loss attributable to shareholders	—	—	(84,057)	(84,057)
At 30 September 2002	<u>47,443</u>	<u>622,635</u>	<u>(398,665)</u>	<u>271,413</u>

Condensed Consolidated Cash Flow Statement

For the six months ended 30 September 2002

	(Unaudited)	
	Six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Net cash (used in) generated from operating activities	(14,659)	2,030
Net cash used in investing activities	(26,810)	(25,624)
Net cash inflow (outflow) from financing activities	27,063	(18,292)
	<hr/>	<hr/>
Decrease in cash and cash equivalents	(14,406)	(41,886)
Cash and cash equivalents at 1 April	56,429	167,633
	<hr/>	<hr/>
Cash and cash equivalents at 30 September	42,023	125,747
	<hr/> <hr/>	<hr/> <hr/>



Notes to the Condensed Financial Statements

For the six months ended 30 September 2002

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and the Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention except that certain investments in securities are stated at fair value.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2002.

In the current period, the Group has adopted the following new or revised SSAPs which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements

The adoption of these standards has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment was required.

Notes to the Condensed Financial Statements (Continued)

For the six months ended 30 September 2002

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group's operations are organised into three operating divisions namely software development, investments and other operations. Other operations of the Group mainly comprise magazine publishing and provision of customer relationship management services. These divisions are the basis on which the Group reports its primary segment information.

Business segments for the period are as follows:

	Three months ended 30 September		Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
Software development	9,157	29,075	13,879	44,950
Investments	—	—	—	—
Other operations	1	213	64	273
	<u>9,158</u>	<u>29,288</u>	<u>13,943</u>	<u>45,223</u>
Results				
Software development	(3,514)	16,244	(8,782)	22,309
Investments	(2,193)	(3,066)	(9,558)	(2,894)
Other operations	192	(2,014)	(848)	(2,278)
	<u>(5,515)</u>	<u>11,164</u>	<u>(19,188)</u>	<u>17,137</u>
Central administrative expenses	<u>(56,213)</u>	<u>(8,337)</u>	<u>(59,454)</u>	<u>(12,180)</u>
Operating (loss) profit	<u>(61,728)</u>	<u>2,827</u>	<u>(78,642)</u>	<u>4,957</u>
Finance costs	(291)	(1,276)	(646)	(2,752)
Share of results of associates	143	—	(3,497)	—
Share of losses of jointly controlled entities	(182)	(115)	(1,569)	(322)
(Loss) profit before taxation	<u>(62,058)</u>	<u>1,436</u>	<u>(84,354)</u>	<u>1,883</u>
Taxation	(185)	—	(185)	—
(Loss) profit before minority interests	<u>(62,243)</u>	<u>1,436</u>	<u>(84,539)</u>	<u>1,883</u>
Minority interests	380	838	482	976
(Loss) profit attributable to shareholders	<u>(61,863)</u>	<u>2,274</u>	<u>(84,057)</u>	<u>2,859</u>

Notes to the Condensed Financial Statements (Continued)

For the six months ended 30 September 2002

3. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments for the period are as follows:

	Three months ended 30 September		Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
Mainland China (the "PRC")	8,243	19,245	12,164	32,205
Hong Kong	915	2,857	1,779	5,832
United States of America	—	7,186	—	7,186
	<u>9,158</u>	<u>29,288</u>	<u>13,943</u>	<u>45,223</u>
Results				
Mainland China	2,006	5,660	1,964	15,752
Hong Kong	(5,988)	3,656	(19,619)	(463)
United States of America	(1,533)	1,848	(1,533)	1,848
	<u>(5,515)</u>	<u>11,164</u>	<u>(19,188)</u>	<u>17,137</u>
Central administrative expenses	<u>(56,213)</u>	<u>(8,337)</u>	<u>(59,454)</u>	<u>(12,180)</u>
Operating (loss) profit	<u>(61,728)</u>	<u>2,827</u>	<u>(78,642)</u>	<u>4,957</u>

4. TAXATION

	Three months ended 30 September		Six months ended 30 September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Underprovision of Hong Kong Profits Tax in prior years	(47)	—	(47)	—
PRC income tax	(138)	—	(138)	—
	<u>(185)</u>	<u>—</u>	<u>(185)</u>	<u>—</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the period.

Pursuant to the relevant laws and regulations in the PRC, the subsidiary in Guangzhou is entitled to exemption from PRC income tax for the year ended 31 December 2001 and entitled to a 50% tax relief for the three years ending 31 December 2004. The subsidiary in Beijing is entitled to exemption from PRC income tax for the two years ending 31 December 2003 and entitled to a 50% tax relief for the three years ending 31 December 2006.

The deferred tax asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

5. INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend (2001: Nil).

Notes to the Condensed Financial Statements (Continued)

For the six months ended 30 September 2002

6. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the following data:

	Three months ended 30 September 2002		Six months ended 30 September 2002	
		2001		2001
Net (loss) profit attributable to shareholders	<u>HK\$(61,863,000)</u>	<u>HK\$2,274,000</u>	<u>HK\$(84,057,000)</u>	<u>HK\$2,859,000</u>
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>948,855,503</u>	<u>824,098,660</u>	<u>946,724,355</u>	<u>797,265,448</u>

No diluted loss per share for the three and six months ended 30 September 2002 has been presented as the exercise price of the Company's share options was higher than the average market price of the Company's shares during the period.

No diluted earnings per share for the three and six months ended 30 September 2001 had been presented as the effect of both the convertible note and share options were anti-dilutive.

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$365,000 (2001: HK\$5,934,000) on acquisition of property, plant and equipment.

8. INTANGIBLE ASSETS

During the period, the Group spent approximately HK\$3,974,000 (2001: Nil) on the acquisition of intangible assets.

9. TRADE AND OTHER RECEIVABLES

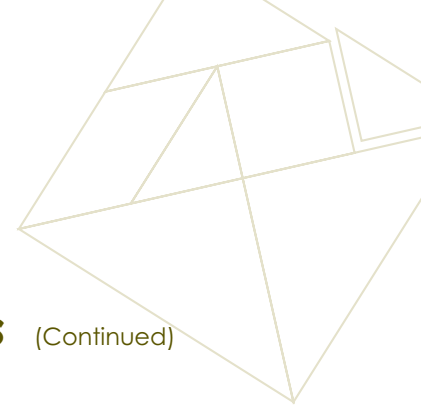
Trade receivables are due within 30 days from the date of billing. Debtors with balances, which have been overdue more than 3 months, are normally requested to settle all outstanding balances before any further credit is granted. However, such further credit will only be granted in exceptional cases where background of the debtor has been taken into account.

The following is an aged analysis of trade receivables at the reporting date:

Age	30 September 2002 HK\$'000	31 March 2002 HK\$'000
0 to 30 days	618	135
31 to 60 days	261	241
61 to 90 days	—	693
Over 90 days	30,577	30,102
	<u>31,456</u>	<u>31,171</u>
Less: Allowances for bad and doubtful debts	<u>(30,259)</u>	<u>(29,964)</u>
	<u>1,197</u>	<u>1,207</u>

Notes to the Condensed Financial Statements (Continued)

For the six months ended 30 September 2002



10. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Age		
0 to 30 days	52	106
31 to 60 days	—	37
61 to 90 days	230	28
Over 90 days	640	464
	<hr/> 922 <hr/>	<hr/> 635 <hr/>

11. RELATED PARTY TRANSACTIONS

During the period, the Group has the following significant transactions with related parties:

	30 September 2002 HK\$'000	30 September 2001 HK\$'000
Income from the provision of computer consultancy services to		
- an associate	280	26,168
- jointly controlled entities	2,603	322
- an associate to be acquired after balance sheet date	3,738	—
Sales of computer hardware and software to		
- a jointly controlled entity	—	625
- an associate to be acquired after balance sheet date	3,667	—
Property rentals paid to		
- a director, Mr. Cheng Kin Kwan	241	239
- a former director, Mr. Lin Kai Horng	8	44
Legal fees paid to a former director, Madam Vivien Chan	—	571
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The above associate to be acquired after balance sheet date is also a substantial shareholder of the Company.

Chairman's Statement

I. GENERAL

Under the influence of a lingering global economic slowdown characterised by a tepid technology sector and dispirited capital markets, the Group again recorded a loss for the quarter. While three consecutive loss periods may be negative in certain ways, it is on the other hand encouraging to note that the rate of actual loss, i.e. before charges, is seen slowing and a substantial portion of the loss for the period is attributable to write-offs and provisions, such as the impairment in value made with regard to the Group's headquarters at The Center.

Contracts on hand amounted to approximately HK\$700 million, which are implemented as scheduled. A number of new projects concluded recently brought encouraging results. The contribution of Timeless Consolidated Platform to the market and projects is increasingly becoming concrete and outstanding.

The development and progress of the contracts and projects on hand have at the same time promoted the Group's network of strategic clients and partners. These clients and partners are themselves significant forces in the market. They are crucial reference of the Group's capability, which will help the Group's further penetration in the marketplace, and thereby generating future benefits. Meanwhile, a number of the Group's associated companies and jointly controlled entities in the PRC (the "Member Companies") made significant progresses during the period. All of the above would certainly be beneficial to the Group's development in future.

Under the present circumstances, we are optimistic towards the prospects of the Group.

II. STRATEGIC CLIENTS AND PARTNERS

The Company recently secured some essential projects and conducted strategic development. These are short-run, cash projects with future enhancement potentials. Except for an insignificant percentage, these projects are pure software development work.

The project for Motorola Inc.'s Tianjin office was an urgent one about enterprise resource planning (ERP) and was related to the local customs services. There were doubts at first that the project could be completed in time. Deploying the Timeless Consolidated Platform (TCP) connection components and the development workflow environment, the project was completed in one month in an optimal manner. This achievement paved the way for the more cooperation of both parties.

The Group was engaged by China Mobile, Beijing Branch for a legal matters processing system and an online recruitment system. The technologies involved were relatively complex and to complete such systems within the tight deadline made the tasks even more difficult to accomplish. Moreover, there was a history of prior failures to develop similar systems, some even backed by the ample resources of multi-nationals. Results, however, were effectively generated by the utilization of the functions of rapid development and connection capability on the Timeless Consolidated Platform. The client was greatly satisfied. It also began the cooperation between both parties.

The enhancement and improvement made to the electronic government system for Beijing Sports Bureau also demonstrated the advantages being enjoyed by "Timeless Consolidated Platform – eGovernment Suite" and "Timeless Consolidated Platform – eEnterprise Suite".

The success of the Group to obtain the engagement from Guang Zhou Press and Publishing Information Center ("GZPPIC"), against numerous bids by multi-national corporations, to develop the Information Exchange Platform of the Guangzhou Information Plaza demonstrated yet once more the superiority of the Timeless Consolidated Platform over single-platform products and applications in the market. It also effectively demonstrated the achievements made by the "Timeless Consolidated Platform – eMedia Suite", and allowed Timeless to tap into the broadcasting, media and publishing market in the PRC.



Chairman's Statement (Continued)

Another unique project undertaken by the Group was the e-government system for CEPREI (Headquarters) Laboratory in the PRC. The system was built on a complicated network structure. The laboratory itself was the first laboratory in the PRC to have obtained international certification and accreditation. Cooperation between the Quality Inspection and Testing Center, which is under the Ministry of Information Industry of the PRC, has begun.

The Group also provided various application systems and performed network projects for Huawei Technology Company Limited ("Huawei"). Inspection and testing were completed recently. The Group has become a technology provider for Huawei. As Huawei is a leading telecommunication network equipment company, with a network of branches around the world and products sold in more than 20 countries and regions, it represented an excellent opportunity for the Group.

The Group successfully implemented the product tracking system for the Emerson Network Power Company. Such system is currently engaged in the maintenance and enhancement phases. The bar code system component was applied on the consolidated platform, integrating computer integrated manufacturing (CIM) and ERP. The successful implementation of such system for a company on Fortune Magazine's America's Most Admired Companies list has encouraged the Group to consider marketing the system to those enterprises currently implementing the ERP of Oracle.

Through the development of projects for Huawei, Emerson, GZPPIC, CEPREI Laboratory, Motorola, China Mobile Beijing and Beijing Sports Bureau, these parties has become strategic clients as well as partners of the Group. The network of strategic clients and partners forms a strong base supporting the Timeless Consolidated Platform and is one of the main sources of the Group's future projects and income.

Most of the Group's Member Companies are such combination of client and partner, and are substantial organizations. Of which, these include Zhuhai Southern Software Park Development Company Limited ("Southern Software Park"), West China Electronic Business Company Limited ("West China Electronic"), Ningxia Educational Information Technology Company Limited ("Ningxia Educational") and Tianjin Timeless Airport Software Co. Ltd. ("TTA Software").

III. SIGNIFICANT MEMBER COMPANIES

During this quarter, we have been conducting a relatively in-depth appraisal on the Group's many Member Companies, and used our best endeavour to facilitate their development, and where possible, conducted rationalization exercise. Several of Member Companies were identified as significant, because they have made considerable progress in the period.

Southern Software Park was the first Member Company that the Group invested in following the Group's listing on the GEM. Under the long term support of the Group, Southern Software Park transformed from one of the three software bases designated by the Ministry of Information Industry to become the eleventh national software development base. Apart from the various administration supports, a subsidy of RMB20 million was granted to Southern Software Park.

Under the dedicated support of the Group, Southern Software Park was granted banking facility of approximately RMB150 million in the quarter. Such funding is designated for the construction works of Phase II of the park. It is anticipated that Phase II will provide huge benefits to Southern Software Park. There is no need for the Group to make any cash investment.

The network project worth about RMB10 million being developed for Southern Software Park will be correspondingly enhanced and is expected to be completed soon.



Chairman's Statement (Continued)

Basing on their understanding and emphasis on the national software development base, Microsoft recently initiated cooperation with Southern Software Park. The parties explored opportunities for strategic partnership as well as cooperation on informatisation infrastructure. On 25 September 2002, Southern Software Park became a Microsoft Certified Windows Application Learning Center. In addition, cooperation on XML Technological Service Center is under progress.

Thus the national software development base has added a Microsoft-business component and that business has now effectively commenced.

In short, it can so far be confirmed that the investments by the Group in Southern Software Park are of vision, correct and will generate profitable returns.

West China Electronic and Ningxia Educational are Member Companies in which the Group has invested over a hundred million dollars. The informatisation projects worth several hundred million dollars being undertaken by the Group for these Member Companies form the substantial part of the Group's total contracts on hand. Therefore, the value of their existence and further development are of great importance to the Group.

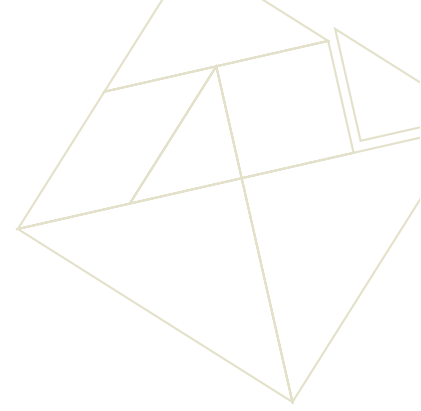
On 31 July 2002, the Chairman of the Group was invited to meet with Mr. Chen Jianguo, the new party secretary of the Ningxia Hui Autonomous Region. Mr. Zhang Laiwu, the well-known Assistant Governor of Ningxia, who have been an ardent supporter of the Group's endeavours in Ningxia, was also present at the meeting. The Chairman explained to Mr. Chen about the difficult positions facing both the Ningxia Municipal Government and the Group: that is, the rumour and guesstimates from the government-backed contracts entered into by the Group with West China Electronic and Ningxia Educational to the reputation and goodwill of these two Member Companies. Mr. Chen, acting on his own and on behalf of the Municipal Government of Ningxia, expressed serious concern towards the situation faced by the Group as a result of its investments in Ningxia. On the one hand, Mr. Chen arduously expressed gratitude on the Group's commitments in Ningxia. On the other, he emphasized solemnly that those negative rumours on Ningxia were groundless and completely out of line with the actual situation.

The reality, plainly put, is that West China Electronic and Ningxia Educational are the flagship enterprises for information technology and education in Ningxia. Both companies are engaged in important projects in Ningxia. The government places great emphasis in these two enterprises, so much so that it is seen in Ningxia that their success or failure could almost equate the success or failure on the informatisation of Ningxia. Such situation is very rare in the Western part of the PRC, rarer still in other provinces of the whole country.

From the sincere high-level meeting between the Ningxia Municipal Government and the Group came the joint confirmation that both parties will use their best efforts to strive for a win-win situation out of this current transient predicament.

Finally, Mr. Chen indicated that he would lend his full support to any action or plan that would expedite West China Electronic and Ningxia Educational towards their goal for listing in Hong Kong.

This important meeting has promoted closer cooperation among the Group, the Ningxia government and the above two Member Companies. It also enabled the smooth progress in their commercial operations. The Education Informatisation Project undertaken by Ningxia Educational has commenced earlier this year and it is hopeful that it could start to generate profits soon.



Chairman's Statement (Continued)

In the quarter, West China Electronic initiated important businesses as follows:

1. The online tender system for pharmaceuticals in Ningxia, which is expected to be an income generator for West China Electronic;
2. The successful completion for West China Electronic Business (Ningxia) Certification Centre. This centre provides service platform for e-commerce activities in Ningxia, and when in full operation will become the main source of profit for West China Electronic in the years to come;
3. The establishment of an information management system for Ningxia Pharmaceuticals Delivery Centre. The system is estimated to handle annual volume of pharmaceuticals delivery of about RMB 650 million.
4. The establishment of the Yinchuan Information Consolidated Services Platform (IDC).

A point worthy of note is that Yinchuan has received approval from the Ministry of Information Industry of the PRC as the pilot city to undertake informatisation projects. The pace for the development and construction of Yinchuan Digitization is set to tremendously increase. The investment for the Yinchuan Digitization has been estimated to be about RMB 2.6 billion and the whole project is projected to take five to eight years. This project will be handled through a company formed and owned as to 80% by West China Electronic and as to 20% by the Municipal Government of Yinchuan.

The abovementioned progresses made by the two Member Companies are in a loose way related to many of the projects the Group has obtained earlier because the various businesses are done through informatisation. These quality projects are important government projects which foreign investment companies are not allowed to participate generally.

To conclude, the participation of the Group in the informatisation of Ningxia is without precedent. The extent of the participation has required vision, courage and commitment, but it has also induced an amount of disputes and worries. The Directors consider that the present difficulties are only temporary and are not insurmountable.

IV. AN OBJECTIVE OF THE MEMBER COMPANIES

These significant Member Companies are of strong background and substantial size. They, in particular, West China Electronic and Ningxia Educational, possess suitable qualities for a listing in the future. When representatives of the Municipal Government of Ningxia visited the Group in Hong Kong earlier this year, they also visited The Stock Exchange of Hong Kong Limited and met with its officials. The representatives of the Ningxia Municipal Government expressed interest and encouraged these two flagship companies to pursue a listing in Hong Kong. The Group's Chairman and Mr. Chen, the party secretary of Ningxia, reaffirmed that intention after their meeting in July.

The directors of Southern Software Park also noted the listing potential of Southern Software Park. The relevant arrangements are under study.

The successful listing for these Member Companies, when happened, will doubtlessly be positively reflected in the value of the Group.

Chairman's Statement (Continued)

V. OUTLOOK

For the Group, the month of November carries certain special meanings. On 25 November 2002 the Group will celebrate the anniversary of its becoming the first GEM company three years ago. Although the general economic environment has seemingly been for the worse year after year, but for the Group, it looks more like the fading darkness before dawn.

November is also a month important to the PRC. The 16th Party Congress opens on 8 November 2002. After the conclusion of the 16th Party Congress, the PRC will enter a new era, when growth and development of the country will accelerate, especially in terms of the strategy of "Utilising education and technology to strengthen the country".

The development and dominance of the PRC will most benefit those who had established early a foundation in the PRC: the foundation in a team of elite staff, in platform technology and in the information sector.

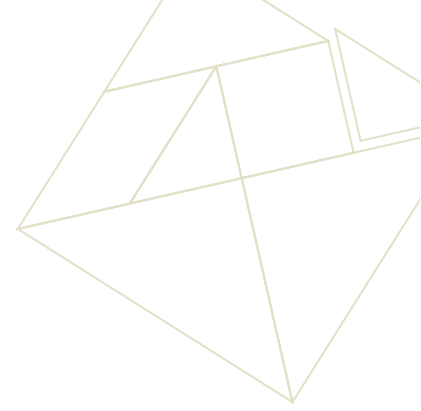
The Group has built just such a foundation and has placed its business focus in the PRC in the Group's early years. Such vision together with the correct strategies and their proper implementation will sustain the Group toward its goals and further expansion.

On behalf of the Board

Cheng Kin Kwan

Chairman

Hong Kong, 8 November 2002



Review of operations

RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2002

The directors continued to take a conservative approach for accounting purposes. The loss for the six months ended 30 September 2002 was approximately HK\$84.1 million compared to a profit of approximately HK\$2.9 million in the same period in previous year. This is mainly due to the following:

1. The decrease in turnover from HK\$45.2 million to HK\$13.9 million as a result of the consistent adoption of a more stringent view on recognizing revenue especially for contracts of relatively longer term in nature in mainland China;
2. The impairment in value and loss on disposal of investment securities totaling approximately HK\$4 million mainly as a result of the significant drop in market price of quoted investments and the disposal of certain interest in a quoted investment during the period;
3. The allowances for deposit made for the investment in an associate of approximately HK\$4.1 million as a result of the provision for impairment loss of the shares of the Company held by a prospective associated company;
4. The impairment in value of the Group's headquarters in Hong Kong amounted to HK\$50 million;
5. The impairment in value of computer software development costs amounted to approximately HK\$2.1 million as the market and thus the revenue generating capabilities of this computer software continued to deteriorate during the period. This represents the computer software development costs of a subsidiary which the Group acquired during the year ended 31 March 2002; and
6. The share of losses of associated companies and jointly controlled entities totaling approximately HK\$5.1 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.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations and investing activities with internally generated cash flows and loan from a bank.

As at 30 September 2002, the Group had bank balances and cash (excluding pledged bank deposits) of approximately HK\$42 million compared to approximately HK\$56.4 million as at 31 March 2002. During the six months ended 30 September 2002, the Group's pledged deposit of HK\$30 million was released from a bank and the Group utilized approximately HK\$26.8 million in investing activities and approximately HK\$7.5 million in repaying the bank loan.

As at 30 September 2002, the Group had a bank loan of HK\$37.5 million and obligations under finance lease of HK\$0.2 million. The bank loan is an installment loan and will be fully repaid in 2006. The following is the maturity profile of the Group's bank loan as of 30 September 2002:

Within one year	33.3%
In the 2nd year	26.7%
In the 3rd to 5th year	40.0%
	<hr/>
	100.0%
	<hr/> <hr/>

Review of operations (Continued)

GEARING RATIO

The gearing ratio of the Group, which is calculated as the ratio of total borrowings to shareholders' funds, was 14% as at 30 September 2002 compared to 13% as at 31 March 2002.

CHARGE ON THE GROUP'S ASSETS

As at 30 September 2002, the Group's headquarters at 79/F The Center, 99 Queen's Road Central, Hong Kong was pledged to a bank for a loan of HK\$37.5 million as mentioned in the previous paragraph. A bank deposit of HK\$5 million (31 March 2002: HK\$5 million) was also pledged to a bank for banking facilities totaling HK\$10 million (31 March 2002: HK\$15 million).

CAPITAL STRUCTURE

During the six months ended 30 September 2002, the Company issued 10,000,000 new ordinary shares at a consideration of HK\$5,300,000 to KDS China Limited, an independent private investor.

SEGMENTAL INFORMATION

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. The Group reports its businesses in three business segments namely software development, investment and other operations, and in three geographical segments namely mainland China, Hong Kong and United States of America.

In respect of business segments, the Group continues to focus on software development. Activity under investment segment decreased in view of the adverse market conditions.

In respect of geographical segments, there was a change during the six months ended 30 September 2002. Turnover generated from mainland China represents approximately 87.2% of the total turnover of the Group during the period compared to approximately 71.2% during the same period in previous year. As the Group has substantial contracts on hand in mainland China, it is expected that the level of our activities in mainland China will continue to increase in future.

ORDER BOOK AND PROSPECTS FOR NEW BUSINESS

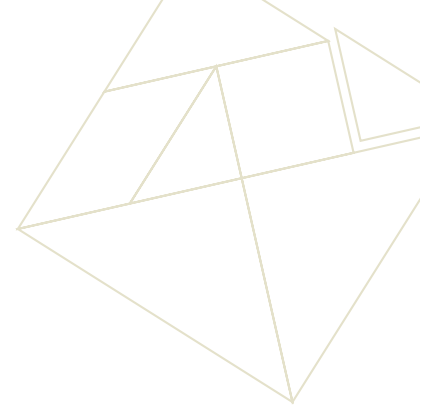
Please refer to Chairman's statement for description of the prospects and amount of orders on hand of the Group.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

There was no disposal or acquisition of subsidiaries and affiliated companies during the six months ended 30 September 2002.

FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group does not have any plan for material investments in the near future.



Review of operations (Continued)

EXPOSURE TO EXCHANGE RISKS

Since the Group's borrowings and its source of income are primarily denominated in Hong Kong dollars, Renminbi and United States dollars, the exposure to foreign exchange rate fluctuations is minimal.

CONTINGENT LIABILITIES

As at 30 September 2002, the Group was granted banking facilities totaling HK\$10 million which was secured by the Group's bank deposits of HK\$5 million. As at 30 September 2002, none of these banking facilities was utilized by the Group.

EMPLOYEE INFORMATION

As at 30 September 2002, the Group employed a total staff of 124. Staff remuneration is reviewed by the Group from time to time and increases are granted normally annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides staff benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 30 September 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	84,050,000	—	84,050,000
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	1,680,000	—	1,680,000
Ms Zheng Ying Yu	200,000	—	200,000

Mr. Cheng Kin Kwan is an initial management shareholder as defined in Rule 13.15(2) of the GEM Listing Rules. His holding represents 8.86% 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 September 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
Mr. Zhang Min	60,000	590,000	—	650,000
Ms Zheng Ying Yu	400,000	300,000	—	700,000

Details of the options are set out below.

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



Other Information (Continued)

SHARE OPTIONS

Share options have been granted to full-time employees (including executive directors) under the Share Option Scheme approved by the shareholders at an extraordinary general meeting on 21 November 2000 (the "Scheme"). Details of the outstanding options granted under the Scheme as at 30 September 2002 are as follows:

	Options				As at 30 Sep 2002	Subscription price per share (HK\$)	Date of grant	Option period
	As at 1 Apr 2002	Granted during the period	Exercised during the period	Lapsed during the period				
Directors:								
Cheng Kin Kwan	1,500,000	—	—	—	1,500,000	0.63	6/3/2001	6/3/2002 - 5/3/2005
	500,000	—	—	—	500,000	0.818	27/4/2001	27/4/2002 - 26/4/2005
	800,000	—	—	—	800,000	0.445	3/10/2001	3/10/2002 - 2/10/2005
	—	650,000 (note)	—	—	650,000	0.455	22/4/2002	22/4/2003 - 21/4/2006
Law Kwai Lam	800,000	—	—	—	800,000	0.63	6/3/2001	6/3/2002 - 5/3/2005
	200,000	—	—	—	200,000	0.818	27/4/2001	27/4/2002 - 26/4/2005
	200,000	—	—	—	200,000	0.445	3/10/2001	3/10/2002 - 2/10/2005
Chung Yiu Fai	1,000,000	—	—	—	1,000,000	0.63	6/3/2001	6/3/2002 - 5/3/2005
	200,000	—	—	—	200,000	0.818	27/4/2001	27/4/2002 - 26/4/2005
	500,000	—	—	—	500,000	0.445	3/10/2001	3/10/2002 - 2/10/2005
	—	300,000 (note)	—	—	300,000	0.455	22/4/2002	22/4/2003 - 21/4/2006

Other Information (Continued)

	Options				As at 30 Sep 2002	Subscription price per share (HK\$)	Date of grant	Option period
	As at 1 Apr 2002	Granted during the period	Exercised during the period	Lapsed during the period				
Leung Mei Sheung Eliza	1,000,000	—	—	—	1,000,000	0.63	6/3/2001	6/3/2002 - 5/3/2005
	200,000	—	—	—	200,000	0.818	27/4/2001	27/4/2002 - 26/4/2005
	500,000	—	—	—	500,000	0.445	3/10/2001	3/10/2002 - 2/10/2005
So Mi Ling Winnie	300,000	—	—	—	300,000	0.63	6/3/2001	6/3/2002 - 5/3/2005
	200,000	—	—	—	200,000	0.818	27/4/2001	27/4/2002 - 26/4/2005
	200,000	—	—	—	200,000	0.445	3/10/2001	3/10/2002 - 2/10/2005
Wong Wai Ping Mandy	800,000	—	—	—	800,000	0.63	6/3/2001	6/3/2002 - 5/3/2005
	200,000	—	—	—	200,000	0.818	27/4/2001	27/4/2002 - 26/4/2005
	500,000	—	—	—	500,000	0.445	3/10/2001	3/10/2002 - 2/10/2005
Zhang Min	60,000	—	—	—	60,000	0.445	3/10/2001	3/10/2002 - 2/10/2005
	—	590,000 <i>(note)</i>	—	—	590,000	0.455	22/4/2002	22/4/2003 - 21/4/2006
Zheng Ying Yu	100,000	—	—	—	100,000	0.818	27/4/2001	27/4/2002 - 26/4/2005
	300,000	—	—	—	300,000	0.445	3/10/2001	3/10/2002 - 2/10/2005
	—	300,000 <i>(note)</i>	—	—	300,000	0.455	22/4/2002	22/4/2003 - 21/4/2006

Other Information (Continued)

	Options				As at 30 Sep 2002	Subscription price per share (HK\$)	Date of grant	Option period
	As at 1 Apr 2002	Granted during the period	Exercised during the period	Lapsed during the period				
Continuous contract employees	3,900,000	—	—	(1,200,000)	2,700,000	0.734	16/2/2001	16/2/2002 - 15/2/2005
	6,450,000	—	—	(1,550,000)	4,900,000	0.63	6/3/2001	6/3/2002 - 5/3/2005
	150,000	—	—	—	150,000	0.592	9/4/2001	9/4/2002 - 8/4/2005
	1,100,000	—	—	(450,000)	650,000	0.818	27/4/2001	27/4/2002 - 26/4/2005
	4,500,000	—	—	(4,500,000)	—	0.996	28/6/2001	28/6/2002 - 27/6/2005
	9,540,000	—	—	(3,300,000)	6,240,000	0.445	3/10/2001	3/10/2002 - 2/10/2005
	—	7,700,000 (note)	—	(200,000)	7,500,000	0.455	22/4/2002	22/4/2003 - 21/4/2006
	<u>35,700,000</u>	<u>9,540,000</u>	<u>—</u>	<u>(11,200,000)</u>	<u>34,040,000</u>			

Note:

At the date before the options were granted, 19 April 2002, the market value per share was HK\$0.45.

The options granted are not recognised in the financial statements until they are exercised. The directors consider that it is not appropriate to disclose the value of options granted during the period as any valuation of the above options would be subject to a number of assumptions that would be subjective and uncertain.

SUBSTANTIAL SHAREHOLDERS

At 30 September 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.

Other Information (Continued)

COMPETING INTEREST

Save as disclosed herein, the directors are not aware of, as at 30 September 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 the unaudited interim financial report for the six months ended 30 September 2002 in conjunction with the Company's external auditors. The independent review report of the external auditors is set out on page 2.

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules throughout the period.