



TIMELESS SOFTWARE LTD.



## Interim Report

for the quarter ended 31 December 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.

The following is the unaudited condensed consolidated income statements for the nine months ended 31 December 2002 with comparative figures and notes thereto; unaudited condensed consolidated income statements for the three months ended 31 December 2002 with comparative figures and notes thereto; and unaudited condensed consolidated statement of changes in equity for the nine months ended 31 December 2002 with comparative figures thereto extracted from the quarterly financial report of the Company for the nine months ended 31 December 2002.

## CONDENSED CONSOLIDATED INCOME STATEMENTS

For the three months and nine months ended 31 December 2002

	Notes	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover		8,576	31,524	22,519	76,747
Other operating income		296	701	1,494	5,127
Cost of sales of computer software and hardware		(4,388)	(1,180)	(9,902)	(3,955)
Staff costs		(4,989)	(8,815)	(15,970)	(26,231)
Depreciation and amortisation		(2,900)	(4,778)	(8,876)	(12,489)
Other operating expenses		(4,409)	(10,905)	(13,989)	(27,695)
Loss on disposal of listed investment securities		(766)	—	(1,874)	—
Impairment in value of investment securities		(8,009)	—	(10,951)	—
Impairment in value of land and buildings		—	—	(50,000)	—
Impairment in value of intangible assets		—	—	(2,171)	—
Impairment in value of other investments		—	—	(1,404)	—
Allowances for deposit made for the investment in an associate		—	—	(4,107)	—
Operating (loss) profit		(16,589)	6,547	(95,231)	11,504
Finance costs		(277)	(936)	(923)	(3,688)
Share of results of associates		(179)	(3)	(3,676)	(3)
Share of results of jointly controlled entities		(2,327)	11	(3,896)	(311)
(Loss) profit before taxation		(19,372)	5,619	(103,726)	7,502
Taxation	3	(6)	—	(191)	—
(Loss) profit before minority interests		(19,378)	5,619	(103,917)	7,502
Minority interests		(44)	780	438	1,756
(Loss) profit attributable to shareholders		(19,422)	6,399	(103,479)	9,258
(Loss) earnings per share	5	(2.05) cents	0.77 cents	(10.92) cents	1.15 cents
- Basic					

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2002

	(Unaudited) Share capital <i>HK\$'000</i>	(Unaudited) Share premium <i>HK\$'000</i>	(Unaudited) retained profits <i>HK\$'000</i>	(Unaudited) Total <i>HK\$'000</i>
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	—	—	9,258	9,258
At 31 December 2001	<u>41,540</u>	<u>559,947</u>	<u>32,759</u>	<u>634,246</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	—	—	(103,479)	(103,479)
At 31 December 2002	<u>47,443</u>	<u>622,635</u>	<u>(418,087)</u>	<u>251,991</u>

### Notes to the condensed financial information

#### 1. Basis of preparation

The condensed consolidated financial information 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.

#### 2. Principal accounting policies

The condensed financial information have been prepared under the historical cost convention except that certain investment 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.

### 3. Taxation

	Three months ended 31 December		Nine months ended 31 December	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Underprovision of Hong Kong Profits Tax in prior years	—	—	(47)	—
PRC income tax	(6)	—	(144)	—
	<u>(6)</u>	<u>—</u>	<u>(191)</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 Mainland China (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.

### 4. Interim dividend

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

### 5. (Loss) earnings per share

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

	Three months ended 31 December		Nine months ended 31 December	
	2002	2001	2002	2001
Net (loss) profit attributable to shareholders	<u>HK\$(19,422,000)</u>	<u>HK\$6,399,000</u>	<u>HK\$(103,479,000)</u>	<u>HK\$9,258,000</u>
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>948,855,503</u>	<u>830,798,129</u>	<u>947,437,321</u>	<u>808,483,653</u>

No diluted loss per share for the three months and nine months ended 31 December 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 months and nine months ended 31 December 2001 had been presented as the effect of both the convertible note and share options were anti-dilutive.

## BUSINESS REVIEW AND OUTLOOK

### 1. Overview

In the quarter under review, the global economy, the technology sector and the capital market continued to see a prolonged depression, while the leadership of China went through a smooth transition. Such being the case, the Group has not entered into any new contract of substantial amount in this period, and the funds for the big mainland China contracts on hand have not been in place. As a result, the Group recorded a loss for the fourth consecutive quarters. During this period, the Board continued to follow its more conservative approach adopted for accounting purposes.

### 2. Results for the period

The loss for the period was approximately HK\$19.4 million compared to a profit of approximately HK\$6.4 million during the same period in the previous year. This is mainly due to the decrease in turnover from HK\$31.5 million to HK\$8.6 million as a result of the adoption of a more stringent view on recognizing revenue for contracts of relatively longer term in nature in mainland China, and the impairment of investment securities amounting to HK\$8.0 million. The afore-said effect is partly offset by the decrease in staff costs and other operating expenses from HK\$19.7 million to HK\$9.4 million.

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.

### 3. Progress of Timeless Consolidated Platform ("TCP")

Being a software development company, the highlight of our efforts in this quarter was represented by turning the TCP into practical market applications as well as the establishment and consolidation of the five pillars for the consolidated platform. This is an important foundation and a potential factor for the Company's financial position to turn around in future. The five pillars for TCP can be shown in five aspects, namely technology, business, human resources, geographic locations and visions.

#### **4. The technology pillar**

The technology pillar of TCP has been basically established in this quarter after years of development, and has gained market recognition. Recently, we have formally obtained a testing result of TCP from the most authoritative accreditation and testing center in the PRC. Such testing was specifically aimed at software products. TCP received ratings of distinction for all the nine features in the specific functional tests including transportability of TCP. Recognition of the functions and value of TCP by this authoritative institution will have an immense significance and long-term influence on the market, particularly the PRC market.

The Group will go further to obtain accreditations such as system integration qualification and ISO accreditation standards in the PRC, which may further assist the Group in obtaining State projects and attaining various standards.

#### **5. The business pillar**

Currently, the Group has a group of strategic partners who are also strategic users. All of them are enterprises with significant influence in the market and of great potential, and examples of which include China Mobile Beijing Branch, Beijing Sports Bureau, Southern Software Park, Huawei Technology Company Limited, Emerson Network Company, and new additions to the list in the quarter include CEPREI (Headquarters) Laboratory, Guangzhou Gas Company and enterprises whose specialty is in the collection and analyzing of vast volume of data. Progress was seen in the collaboration between these entities and the Group in this quarter. In future, these entities will be the principal profit drivers of the Group.

#### **6. The human resources pillar**

The Group has finally completed Version I of the “Timeless Operating Flow Guideline”. It is on the verge of being implemented. This has an immense significance in terms of cost-saving in human resources, and in terms of forming an elite development system.

#### **7. The geographical pillar**

Development of the Group in Europe and in the United States met a setback after the occurrence of the 911 incident. Yet with the passage of time, it has regained momentum. Recently, the Group's progress in its collaboration with a company in the Silicon Valley of the United States has been encouraging, and will be an important pillar for a win-win situation for both the United States and Hong Kong markets.

## 8. The pillar of visions

By the end of 2002, the Group has completed the global and strategic preparation of its software development business and consolidated platform. This strategy is based on the unique forward-adaptability characteristic of TCP, which has proved itself after enduring long and continuous operation. In concrete terms, the continuous improvement in the Group's cash flow will be the only performance measurement of this strategy in future.

## 9. Prospects

The world remains in difficulties, so does Hong Kong, and so do we. However, as China is expected to be moving rapidly forward, the Group is certain that the foundation it has built in China over the past years will eventually bring success to the Group. With the changes in leadership of the Chinese Government expected to be completed very soon, the funds for the Group's big mainland China projects should be in place soon thereafter. Moreover, the Group's investments namely Southern Software Park, West China Electronic Business Co., Ltd. and Ningxia Educational Information Technology Co. Ltd. are making great strides forward in their business development and in the direction of attaining their aim toward a listing. There are ample reasons to be hopeful that 2003 may ultimately turn out to be a pleasant year.

Finally, the Board has undertaken a Group-wide cost cutting by reducing the remuneration of the Chairman and other staff by 20% and 15% respectively. It is perceived that this and other related measures are desired disciplines before and until the current economic conditions significantly improve and the financial performance of the Group turns around.



## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 31 December 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	95,500,000	—	95,500,000
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	1,680,000	—	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 10.06% 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 31 December 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

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held in trust for the Group, at 31 December 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 31 December 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.

<b>Name of shareholder</b>	<b>Number of ordinary shares</b>	<b>Percentage of issued share capital</b>
Educational Information Technology (HK) Company 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 31 December 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 quarterly financial report for the nine months ended 31 December 2002 in conjunction with the Company's external auditors. The independent review report of the external auditors is set out on page 10.

On behalf of the Board  
**Cheng Kin Kwan**  
*Chairman*

Hong Kong, 10 February 2003

## INDEPENDENT REVIEW REPORT

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**Deloitte  
Touche  
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### Independent review report To the directors of Timeless Software Limited

*(incorporated in Hong Kong with limited liability)*

#### Introduction

We have been instructed by the directors of the Company to review the quarterly financial report for the nine months ended 31 December 2002 set out on pages 2 to 8\*.

#### 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 a quarterly financial report. The quarterly 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 enquiries of group management and applying analytical procedures to the quarterly 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 quarterly 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 quarterly financial report for the nine months ended 31 December 2002.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statements for the nine months ended 31 December 2001 and for the three months ended 31 December 2001 and the condensed consolidated statement of changes in equity for the nine months ended 31 December 2001 disclosed in the quarterly financial report have not been reviewed in accordance with SAS 700.

**Deloitte Touche Tohmatsu**

10 February 2003

\* *References to page numbers are page number of such quarterly financial report of the Company for the period ended 31 December 2002.*