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FIRST QUARTERLY REPORT 2003

ThinSoft

THINSOFT (HOLDINGS) INC
博軟(控股)有限公司



Cover Design Theme

The Cover Design synergises the modern and the traditional. The stylised and modernised numeral "1" provides the canvas on which the stylised calligraphic words "Forward" are painted.

Together they express the theme:

*"ThinSoft - The Thin Computing Solutions Market Leader
Moving Forward With Vision and Momentum".*

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.



RESULTS

The board of directors of ThinSoft (Holdings) Inc (the “Company”) presents the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2003 as follows:

	Notes	For the three months ended 31 March	
		2003 HK\$'000	2002 HK\$'000
TURNOVER	2	3,112	6,488
Cost of sales		<u>(2,302)</u>	<u>(1,456)</u>
Gross profit		810	5,032
Other income		34	142
Distribution and selling expenses		(120)	(170)
General and administrative expenses		(3,494)	(2,606)
Other operating expenses		<u>(1,709)</u>	<u>(1,406)</u>
(LOSS)/PROFIT FROM OPERATING ACTIVITIES		(4,479)	992
Finance costs, net		<u>–</u>	<u>–</u>
(Loss)/profit before tax		(4,479)	992
Tax	3	<u>–</u>	<u>(323)</u>
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(4,479)</u>	<u>669</u>
(LOSS)/EARNINGS PER SHARE	4		
Basic		<u>HK(0.89) cent</u>	<u>HK0.16cent</u>
Diluted		<u>N/A</u>	<u>HK0.14cent</u>



Notes:

1. Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

The consolidated financial statements have been prepared using the merger basis of accounting.

2. Turnover

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

3. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the period (2002: Nil).

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% (2002: 22%) on the estimated assessable profits arising in Singapore for the period ended 31 March 2003.

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 ranging from 15% to 39%, and California state corporate tax at a rate of 8.84% (2002: 8.84%) for the period ended 31 March 2003, on its estimated assessable profits arising on a world wide basis.

There was no unprovided deferred tax in respect of the period (2002: Nil).

4. (Loss)/earnings per share

The loss per share for the three months ended 31 March 2003 is calculated based on the unaudited loss from ordinary activities attributable to shareholders for the three months ended 31 March 2003 of approximately HK\$4,479,000 and the weighted average of 500,800,000 shares in issue during the period.

No diluted loss per share for the three months ended 31 March 2003 is presented because the share options outstanding had an anti-dilutive effect on the basic loss per share for the period.

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



5. Dividends

The directors do not recommend the payment of any dividend for the three months ended 31 March 2003 (2002: Nil).

6. Reserves

	Share premium HK\$'000	Exchange translation reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2002	–	(47)	6,840	5,447	12,240
Premium on issuance of shares	43,750	–	–	–	43,750
Capitalization issue	(18,600)	–	–	–	(18,600)
Share issuance expenses	(16,649)	–	–	–	(16,649)
Exchange translation differences	–	20	–	–	20
Profit for the period	–	–	–	669	669
At 31 March 2002	8,501	(27)	6,840	6,116	21,430
At 1 January 2003	8,501	(27)	6,840	(2,799)	12,515
Premium on issuance of shares	120	–	–	–	120
Loss for the period	–	–	–	(4,479)	(4,479)
At 31 March 2003	8,621	(27)	6,840	(7,278)	8,156

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

BUSINESS REVIEW

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

The major products and market developments were:

- WinConnect Server XP software made available preloaded on Toshiba Computer System Group's Magnia®Z310 Wireless Mobility Server;
- Launch of WinConnect S software for the Solaris operating system;



- Original equipment manufacturer agreement with German information technology (“IT”) company eSeSIX Computer GmbH (“eSeSIX”) to embed the WinConnect software as the Thin Computing solution standard for eSeSIX’s range of Thin Clients; and
- Contract with Beijing ZhongQing Elegant Technology Corporation to bundle the WinConnect Server XP software on one of the PRC company’s line of personal computers (“PCs”).

WinConnect Server XP software made available preloaded on Magnia®Z310 Wireless Mobility Server of Toshiba Computer System Group (“Toshiba CSG”)

The Group’s WinConnect Server XP software was made available preloaded on Toshiba CSG’s Magnia®Z310 Wireless Mobility Server.

WinConnect Server XP bundled with the Magnia®Z310 Wireless Mobility Server supports 12 simultaneous remote desktop connections and provides a cost-effective and high performance option for accessing data and applications remotely.

The WinConnect Server XP bundled with the Magnia®Z310 Wireless Mobility Server facilitates the demanding support requirements of remote field operations by offering such key features as wireless functionality, compact size, modular design, and optimum connectivity.

WinConnect Server XP is an ideal match for small, medium, and large businesses. As employees become increasingly spread around the world in branch offices, homes, hotels, and customer sites, client/server computing solutions become more of a necessity in order to reduce both the complexity and the total cost of ownership (“TCO”) in the provision of enterprise-driven computing resources.

Launch of WinConnect S software for the Solaris operating system

The Group also successfully rolled out WinConnect S, an enhanced version of its flagship software product series WinConnect.

WinConnect S is a Remote Desktop Protocol (“RDP”) client for the Solaris operating system. Using RDP, a user can create remote connection to Windows computers to run Windows applications. The connection can be over a local area network or over the Internet.

WinConnect S seamlessly delivers Windows applications to Sunray and SPARCstation users. Also, as most of the processing is done on the Windows Terminal Server, Windows applications can be displayed on Sunray and SPARCstations.



Original equipment manufacturer (“OEM”) agreement with German IT company eSeSIX

The Group entered into an OEM agreement with eSeSIX to embed its unique WinConnect software as the Thin Computing solution standard within the German’s company range of THINTUNE Linux-based Thin Clients. eSeSIX will also distribute the Group’s WinConnect Server XP software in its relationship with the Group.

eSeSIX manufactures and delivers Thin Client solutions since 1995. It also provides server-based computing solutions.

Contract with Beijing ZhongQing Elegant Technology Corporation (“Beijing ZhongQing”)

The Group secured a contract with Beijing ZhongQing to bundle its WinConnect Server XP software on the PRC company’s Power Edu line of PCs. The contract is valued at approximately HK\$1.4 million.

WinConnect Server XP bundled with Beijing ZhongQing’s Power Edu PCs is a boon for PRC educational institutions as it results in a reduction in the TCO in terms of hardware investments and provides optimal maximisation and utility of computing resources in the demanding PRC educational environment.

Beijing ZhongQing, established in 1992, is a high-technology enterprise that specialises in the design, development, manufacture and sales of computing products for the PRC market.

FINANCIAL REVIEW

The Group’s unaudited turnover for the three months ended 31 March 2003 amounted to approximately HK\$3.1 million, a decrease of 52% when compared to approximately HK\$6.5million for the corresponding previous quarter. The decrease is largely a consequence of the lingering and uncertain global market conditions that has exacerbated the tightening and restrained IT spending trend in the first quarter of 2003.

During the period under review, gross profit margin decreased to 26%. Gross profit margin was weighed down by the sales contribution of upgrade kits and vertical market solutions that have relatively lower gross profit margins.

The administrative expenses for the three months ended 31 March 2003 increased to approximately HK\$3.5 million. The increase was due to the routine and mandatory expenses incurred for the operations as a public-listed company.

As at 31 March 2003, the Group maintained a healthy financial position with approximately HK\$14.4 million cash on hand. There were no bank borrowings as at 31 March 2003.



OTHER INFORMATION

Directors' interests in shares

On 27 February 2002, the shares of the Company were listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") by placing of 125,000,000 new shares at an issue price of HK\$0.40 ("Placing"). At 31 March 2003, the interests of the directors and their associates in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), are set out below:

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

Note: IPC Corporation Ltd ("IPC"), the ultimate holding company of the Company, is a company incorporated under the laws of Singapore and whose securities are listed on The Singapore Exchange Securities Trading Limited. At 31 March 2003, approximately 65.3% of the issued share capital of IPC is held by the public. At the date of this report, IPC holds approximately 75% (or 375,000,000 shares) of the issued share capital of the Company.

As at 31 March 2003, each of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred directly held approximately 1.4% and 1.3% respectively in the issued share capital of IPC and each of them further owned approximately 0.001% of IPC's issued share capital as a result of the conversion shares received by each of them pursuant to a scheme of arrangement of IPC.

Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin are the brothers of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred. As at 31 March 2003, 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 IPC.

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



Substantial shareholders

As at date of this report, the following interests of 5% 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	Approximate Percentage of holding
IPC	375,000,000	75%

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

Directors’ rights to acquire shares

Save as disclosed under the heading “Share option schemes” below, and other than in connection with the reorganisation scheme (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the GEM of the Stock Exchange, 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 directors and employees of the Group, details of which are as follows:

Name of participant	Number of share options			Exercise period of share options	Exercise price per share HK\$
	Granted on 2 February 2002	Lapsed/ Exercised	At 31 March 2003		
Directors of the Company					
William Michael Driscoll	3,600,000	–	3,600,000	27 February 2003 to 1 February 2008	0.08
Ngiam Mia Hai Bernard	7,600,000	–	7,600,000	27 February 2003 to 1 February 2008	0.08
Ngiam Mia Hong Alfred	7,200,000	–	7,200,000	27 February 2003 to 1 February 2008	0.08
Directors of subsidiaries					
Ngiam Mia Je Patrick	3,600,000	–	3,600,000	27 February 2003 to 1 February 2008	0.08
Ngiam Mia Kiat Benjamin	3,600,000	–	3,600,000	27 February 2003 to 1 February 2008	0.08
Lauw Hui Kian	3,600,000	–	3,600,000	27 February 2003 to 1 February 2008	0.08
Other employees	23,400,000	(900,000)	22,500,000	27 February 2003 to 1 February 2008	0.08-0.28
	<u>52,600,000</u>	<u>(900,000)</u>	<u>51,700,000</u>		



No further options will be granted under the Pre-Scheme after listing of the Company's shares on the GEM. Upon exercise of all outstanding Pre-Scheme 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.

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

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

Sponsor's interest

On 27 February 2002, the shares of the Company were listed on the GEM of the Stock Exchange by Placing. The sponsor of the Placing was ICEA Capital Limited (the "Sponsor").

As at 13 May 2003, the Sponsor, its directors, employees and associates, did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

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

Competition and conflict of interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group during the period ended 31 March 2003.



Purchase, redemption or sale of listed securities

The Company's shares were listed on the 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.

Board practices and procedures

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 throughout the period ended 31 March 2003.

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 two members, Lee Chung Mong and Chen Tzyh-Trong, independent non-executive directors of the Company. The Group's unaudited results for the period ended 31 March 2003 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, 14 May 2003