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THIRD QUARTERLY REPORT 2003

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ThinSoft

THINSOFT (HOLDINGS) INC
博軟(控股)有限公司

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 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.



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”.*



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 nine months ended 30 September 2003 as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	7,054	2,777	16,394	14,964
Cost of sales		(3,821)	(1,235)	(10,214)	(3,650)
Gross profit		3,233	1,542	6,180	11,314
Other income		208	173	267	323
Selling and distribution expenses		(48)	(276)	(250)	(741)
General and administrative expenses		(2,654)	(3,092)	(9,490)	(8,216)
Other operating expenses		(1,709)	(2,133)	(5,127)	(5,040)
Loss from operating activities		(970)	(3,786)	(8,420)	(2,360)
Finance costs, net		–	(2)	–	(2)
Loss before tax		(970)	(3,788)	(8,420)	(2,362)
Tax	3	(367)	121	(384)	(460)
Loss attributable to shareholders		(1,337)	(3,667)	(8,804)	(2,822)
Dividend	4	–	–	–	–
Loss per share	5				
– basic		(0.27) cent	(0.73) cent	(1.76) cent	(0.59) cent

Notes:

1. Basis of preparation and principal accounting policies

The basis of preparation and accounting policies adopted for the preparation of the financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2002.

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 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% (2002: 22%) on the estimated assessable profits arising in Singapore for the period ended 30 September 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 of between 15% to 39%, and California state corporate tax at a rate of 8.84% (2002: 8.84%) for the period ended 30 September 2003, on its estimated assessable profits arising on a world wide basis.

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

4. Dividends

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2003 (2002: Nil).

5. Loss per share

The basic loss per share for the three months and nine months ended 30 September 2003 are calculated based on the consolidated loss attributable to shareholders of the Company for the three months and nine months ended 30 September 2003 of approximately HK\$1,337,000 and HK\$8,804,000 respectively (2002: approximately HK\$3,667,000 and HK\$2,822,000) and 501,250,000 shares and 500,751,465 shares respectively (2002: 500,000,000 shares and 474,816,850 shares respectively) deemed to have been issued and issuable during the period under review on the assumption that the Group reorganisation to rationalize the structure of the Group in preparation for the listing of its shares on GEM of the Stock Exchange on 27 February 2002 ("Group Reorganisation") and the subsequent capitalisation issue of 372,000,000 shares of the Company had been effective on 1 January 2002.

No diluted loss per share is presented because the share options outstanding had an anti-dilutive effect on the basic loss per share.



6. Reserves

	Share premium HK\$'000	Exchange translation reserve HK\$'000	Capital reserve HK\$'000	Retained profits/ (accumulated losses) 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	–	–	–	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
At 1 January 2003	8,501	(27)	6,840	(2,799)	12,515
New issue of shares	133	–	–	–	133
Loss for the period	–	–	–	(7,467)	(7,467)
At 30 June 2003	8,634	(27)	6,840	(10,266)	5,181
Loss for the period	–	–	–	(1,337)	(1,337)
At 30 September 2003	8,634	(27)	6,840	(11,603)	(3,844)

The capital reserve of the Group represents the difference between the aggregate nominal value of 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

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

Product development

The Group launched the Buddy B-680 Premium and Lite software suites in the period under review.

Buddy B-680 Premium and Lite is a kit bundled with Buddy software which enables two to five users to share the computing power and resources of a single computer.

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 SPARC station users. Also, as most of the processing is done on the Windows Terminal Server, Windows applications can be displayed on Sunray and SPARC stations.

Market development

In terms of market development, an original equipment manufacturer (“OEM”) agreement was signed with Blue Star Computer Group Co., Ltd (“Blue Star”) in the third quarter of 2003. Under that agreement, Blue Star will bundle and market BeTwin 2000/XP on its virtual computer range of PCs for a period of three years. The cooperation with Blue Star is an endorsement of the quality, uniqueness and versatility of BeTwin 2000/XP.

Blue Star, established in 1994, manufactures and sells PCs predominantly for the PRC market. Blue Star, which also offers other information technology (“IT”) and software-related products, ships more than 400,000 PCs annually. BeTwin 2000/XP provides PC companies such as Blue Star to offer PCs that have value-added functionality, optimises the untapped resources of PCs at a much lower total cost of ownership (“TCO”).

Another strategic business alliance was established for the European market during the period under review. An OEM agreement was signed with eSeSIX Computer GmbH (“eSeSIX”) to embed the Group’s 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 addition, the Group secured a contract with Beijing ZhongQing Elegant Technology Corporation (“Beijing ZhongQing”) to bundle its WinConnect Server XP software on the PRC company’s Power Edu line of personal computers (“PCs”). The contract is valued at approximately HK\$1.4 million.

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.

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.

Ongoing marketing efforts are focused and targeted in various countries. Similarly, the Group is also intensifying its efforts by working closely with its resellers and distributors to enhance its market presence and penetrate into newer market segments.

The Group is likewise focusing its efforts on e-marketing in order to generate an increase in web traffic from end-customers, resellers and distributors, as well as online sales.

FINANCIAL REVIEW

The Group’s unaudited turnover for the three months ended 30 September 2003 amounted to approximately HK\$7.1 million, which is over 2.5 times as compared to approximately HK\$2.8 million for the corresponding previous quarter. Turnover for the nine months ended 30 September 2003 also increased by 9.6% to approximately HK\$16.4 million as compared to the corresponding previous period.

Gross profit margin for the three months ended 30 September 2003 decreased to 45.8%. Gross profit margin was weighed down by the sales contribution of upgrade kits and vertical market solutions that have relatively lower gross profit margins. Gross profit for the three months ended 30 September 2003 increased in line with the turnover to approximately HK\$3.2 million as compared to approximately HK\$1.5 million in the corresponding previous quarter.

General and administrative expenses decreased from approximately HK\$3.1 million to approximately HK\$2.7 million in the quarter under review. The decreased was the results of continuing cost control and improvement of cost effectiveness of the Group.

Other operating expenses mainly represented the amortization of deferred development expenditure for software and website during the period under review.

The loss attributable to shareholders was narrowed to approximately HK\$1.3 million for the quarter under review from approximately HK\$3.7 million in the corresponding previous quarter.

The Group continues to be in a strong financial position. Cash and bank balances as at 30 September 2003 was approximately HK\$20.2 million (2002: approximately HK\$34.8 million). There were no bank borrowings as at 30 September 2003 (2002: Nil).

OTHER INFORMATION

Directors' interests and short positions in shares, underlying shares and debentures

As at 30 September 2003, the interests or short positions of the directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Interests in ordinary shares

Name of director	Type of interest	Aggregate percentage of long position
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. As at 30 September 2003, approximately 65.3% of its issued share capital 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 30 September 2003, 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 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.



Interests in share options

Name of director	Number of share options			Exercise period of share options	Exercise price per share HK\$
	granted on 2 February 2002	lapsed/ exercised during the period	outstanding at 30 September 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

Save as disclosed above, as at 30 September 2003, none of the directors or their associates had any personal, family, corporate or other interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rule 5.40 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Substantial shareholders

As at 30 September 2003, the following company was interested in more than 5% of the issued share capital of the Company as recorded in the register maintained under Section 336 of the SFO:

Name	Number of shares held	Percentage of holding
IPC Corporation Ltd	375,000,000	approximately 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 and short positions in shares, underlying shares and debentures" above, was interested in or had a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 schemes" 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 all executive directors of the Company) of the Group.

The following share options were outstanding under the Pre-Scheme:

Name of director	Number of share options			Exercise period of share options	Exercise price per share HK\$
	granted on 2 February 2002	lapsed/ exercised during the period	outstanding at 30 September 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	(1,250,000)	22,150,000	27 February 2003 to 1 February 2008	0.08-0.28
	52,600,000	(1,250,000)	51,350,000		



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.

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

On 27 February 2002, the shares of the Company were listed on GEM of the Stock Exchange by way of placing of 125,000,000 new shares at an issue price of HK\$0.40 ("Placing"). The sponsor of the placing was ICEA Capital Limited (the "Sponsor").

The Sponsor has confirmed, as at 30 September 2003 and 11 November 2003, that none of the Sponsor nor its associates, directors or employees 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 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 Company's listing on 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 under review.

Purchase, redemption or sale of listed securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period ended 30 September 2003.

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 throughout the period ended 30 September 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 30 September 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, 12 November 2003