



Quarterly Report
for the quarter ended 31 December 2003

Q3

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 Quarterly 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 Quarterly 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 Quarterly Report misleading; and (3) all opinions expressed in this Quarterly Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Board of Directors ("Board") of Timeless Software Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three and nine months ended 31 December 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

Condensed Consolidated Income Statements

For the three and nine months ended 31 December 2003

	Notes	(Unaudited) Three months ended 31 December 2003		(Unaudited) Nine months ended 31 December 2003	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover		1,163	8,576	7,381	22,519
Other operating income		131	296	564	1,494
Cost of computer software and hardware sold		(22)	(4,388)	(198)	(9,902)
Staff costs		(3,837)	(4,989)	(11,972)	(15,970)
Depreciation and amortisation		(3,303)	(2,900)	(9,951)	(8,876)
Other operating expenses		(6,771)	(4,409)	(16,165)	(13,989)
Gain (loss) on disposal of listed investment securities		(70)	(766)	5,874	(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 product development costs		—	—	—	(2,171)
Impairment in value of other investments		—	—	—	(1,404)
Allowance for deposit made for the investment in an associate		—	—	—	(4,107)
Operating loss		(12,709)	(16,589)	(24,467)	(95,231)
Finance costs		(113)	(277)	(490)	(923)
Share of results of associates		253	(179)	109	(3,676)
Share of results of jointly controlled entities		(717)	(2,327)	(600)	(3,896)
Loss before taxation		(13,286)	(19,372)	(25,448)	(103,726)
Taxation	3	—	(6)	3,995	(191)
Loss before minority interests		(13,286)	(19,378)	(21,453)	(103,917)
Minority interests		3	(44)	1	438
Net loss attributable to shareholders		(13,283)	(19,422)	(21,452)	(103,479)
Loss per share	4				
- Basic		(1.35) cents	(2.05) cents	(2.23) cents	(10.92) cents

Condensed Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2003

	(Unaudited) Share capital HK\$'000	(Unaudited) Share premium HK\$'000	(Unaudited) Goodwill reserve HK\$'000	(Unaudited) Deficit HK\$'000	(Unaudited) Total HK\$'000
At 1 April 2002	46,943	617,884	(9,080)	(305,528)	350,219
Issue of shares	500	4,800	—	—	5,300
Expenses incurred in connection with the issue of shares	—	(49)	—	—	(49)
Net loss attributable to shareholders	—	—	—	(103,479)	(103,479)
At 31 December 2002	47,443	622,635	(9,080)	(409,007)	251,991
At 1 April 2003	47,443	622,635	(9,080)	(422,592)	238,406
Issue of shares	1,910	7,244	—	—	9,154
Expenses incurred in connection with the issue of shares	—	(361)	—	—	(361)
Net loss attributable to shareholders	—	—	—	(21,452)	(21,452)
At 31 December 2003	49,353	629,518	(9,080)	(444,044)	225,747

Notes to the Condensed Consolidated Financial Information

1. Basis of preparation

The condensed consolidated financial information have been prepared in accordance with the applicable 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 ("GEM Listing Rules").

2. Principal accounting policies

The condensed consolidated financial information have been prepared under the historical cost convention.

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 2003 except as described below.

In the nine months ended 31 December 2003, the Group has adopted the Statement of Standard Accounting Practice No.12 (Revised) "Accounting for income taxes" ("SSAP12 (Revised)"), for the first time, issued by the Hong Kong Society of Accountants. SSAP12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements.

SSAP12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP12 (Revised) has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment was required.

3. Taxation

	Three months ended 31 December 2003		Nine months ended 31 December 2003	
	HK\$'000	2002 HK\$'000	HK\$'000	2002 HK\$'000
Over (under) provision of Hong Kong				
Profits Tax in prior years	—	—	3,995	(47)
Mainland China income tax	—	(6)	—	(144)
	<u>—</u>	<u>(6)</u>	<u>3,995</u>	<u>(191)</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 People's Republic of China ("PRC"), the subsidiary in Guangzhou is entitled to a 50% relief of PRC income tax for the three years ending 31 December 2004 while 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% relief for the three years ending 31 December 2006.

Notes to the Condensed Consolidated Financial Information (Continued)

4. Loss per share

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

	Three months ended 31 December 2003		Nine months ended 31 December 2003	
		2002		2002
Net loss attributable to shareholders	HK\$13,283,000	HK\$19,422,000	HK\$21,452,000	HK\$103,479,000
Weighted average number of ordinary shares for the purposes of basic loss per share	986,274,981	948,855,503	961,508,078	947,437,321

No diluted loss per share for the three and nine months ended 31 December 2003 and 31 December 2002 have 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 both periods.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the quarter ended 31 December 2003 (2002: Nil).

Business Review and Outlook

Overview and results review

This quarter was a continuation of the Group's preparation for a rebound. We were still bearing the costs for market and technology developments and were also making provisions for prudent accounting purposes and thus, corresponding loss was recorded.

The directors continued to take a conservative approach for accounting purposes and a stringent view on recognising revenue was still being adopted especially for contracts of relatively longer term in nature in Mainland China. The loss for the quarter ended 31 December 2003 was approximately HK\$13.3 million compared to a loss of approximately HK\$19.4 million in the same quarter in previous year. The decrease in the loss for this quarter is mainly due to the following:

1. There was no impairment in value of investment securities in this quarter; and
2. The better financial performance of associates and jointly controlled entities during this quarter.

However, we had significant progress in our preparations in this quarter, which was mainly reflected in the cash flow improvement and critical project progress in various regions.

Specifically, preparations can be presented in the following three areas.

Preparation for revenue contribution

The projects from the Beijing region include China Mobile, Beijing Sports Bureau, the Data Processing System for the Chinese Academy of Sciences (CAS) etc. whereas projects from the Guangzhou region include "ChinaVnet" for Guangdong Telecom, Drugs Administration System for the Guangzhou Drug Administration, CEPREI (Headquarters) Laboratory, Guangzhou Information Centre etc., and they are accompanied by projects from Hong Kong region such as Hong Kong Tourism Board, Information and Technology Services Department and the Asian Wall Street Journal etc. These projects all contribute or prepare to contribute for our revenue.

Preparation for fusing software development and capital market together

Our pragmatic software development business has been substantially active in attracting funding in Guangzhou in China, Hong Kong and the United States and has achieved major progress. Such progress is fusing together with the third phase development of the Zhuhai Southern Software Park, a national software base.

Timeless Consolidated Platform takes shape and prepares for market

The five foundation pillars of the Timeless Consolidated Platform, namely technology, business, talent, region and strategy, have been fortified substantially in the market in this quarter. We are preparing for the most important thrust to materialise the marketability of this technology pillar.

Outlook

We are striving to announce Timeless Consolidated Platform specifically to the whole world before mid year. Lots of breakthroughs have therefore to be made and among them, the software development technology breakthrough will serve as the most significant key factor.

Directors' and Chief Executives' Interests in Securities

As at 31 December 2003, the interests or short positions of the directors in the shares, underlying shares or debentures of the Company which had been notified to the Company and the Exchange pursuant to Part XV of the Securities and Futures Ordinance ("SFO") (including interests or short positions in which they are deemed or taken 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 to be notified to the Company and the Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules were as follows:

(a) Ordinary shares of the Company

Name of director	Number of shares held and nature of interest		Total number of shares	Total percentage of shareholding
	Personal Interest	Corporate interest		
Cheng Kin Kwan	106,000,000	—	106,000,000	10.74%
Law Kwai Lam	10,000,000	28,325,000*	38,325,000	3.88%
Chung Yiu Fai	2,420,000	—	2,420,000	0.25%
Leung Mei Sheung, Eliza	1,030,000	—	1,030,000	0.10%
Wong Wai Ping, Mandy	1,680,000	—	1,680,000	0.17%
Zheng Ying Yu	200,000	—	200,000	0.02%

* These shares were held by a private company controlled by Mr. Law Kwai Lam.

(b) Options to subscribe for ordinary shares of the Company

Particulars of the directors' interests in share options to subscribe for shares in the Company pursuant to the Company's 2000 Share Option Scheme and 2003 Share Option Scheme were as follows:

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options as at 31 December 2003
Cheng Kin Kwan	6/3/2001	6/3/2002 - 5/3/2005	0.630	1,500,000
	27/4/2001	27/4/2002 - 26/4/2005	0.818	500,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	800,000
	22/4/2002	22/4/2003 - 21/4/2006	0.455	650,000
	5/9/2003	5/9/2003 - 4/9/2013	0.228	7,660,000
	8/12/2003	8/12/2003 - 7/12/2013	0.213	800,000

Directors' and Chief Executives' Interests in Securities (Continued)

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options as at 31 December 2003
Law Kwai Lam	6/3/2001	6/3/2002 - 5/3/2005	0.630	800,000
	27/4/2001	27/4/2002 - 26/4/2005	0.818	200,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	200,000
	5/9/2003	5/9/2003 - 4/9/2013	0.228	2,000,000
Chung Yiu Fai	6/3/2001	6/3/2002 - 5/3/2005	0.630	1,000,000
	27/4/2001	27/4/2002 - 26/4/2005	0.818	200,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	500,000
	22/4/2002	22/4/2003 - 21/4/2006	0.455	300,000
	5/9/2003	5/9/2003 - 4/9/2013	0.228	5,500,000
	8/12/2003	8/12/2003 - 7/12/2013	0.213	400,000
Leung Mei Sheung, Eliza	6/3/2001	6/3/2002 - 5/3/2005	0.630	1,000,000
	27/4/2001	27/4/2002 - 26/4/2005	0.818	200,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	500,000
	5/9/2003	5/9/2003 - 4/9/2013	0.228	5,500,000
	8/12/2003	8/12/2003 - 7/12/2013	0.213	4,300,000
So Mi Ling, Winnie	6/3/2001	6/3/2002 - 5/3/2005	0.630	300,000
	27/4/2001	27/4/2002 - 26/4/2005	0.818	200,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	200,000
	5/9/2003	5/9/2003 - 4/9/2013	0.228	2,000,000
Wong Wai Ping, Mandy	6/3/2001	6/3/2002 - 5/3/2005	0.630	800,000
	27/4/2001	27/4/2002 - 26/4/2005	0.818	200,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	500,000
	5/9/2003	5/9/2003 - 4/9/2013	0.228	5,500,000
	8/12/2003	8/12/2003 - 7/12/2013	0.213	400,000
Zheng Ying Yu	27/4/2001	27/4/2002 - 26/4/2005	0.818	100,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	300,000
	22/4/2002	22/4/2003 - 21/4/2006	0.455	300,000
	5/9/2003	5/9/2003 - 4/9/2013	0.228	2,000,000
	8/12/2003	8/12/2003 - 7/12/2013	0.213	400,000

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held by certain directors in trust for the Group, at 31 December 2003, none of the directors or chief executives or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which fall to be notified to the Company and the Exchange pursuant to Part XV 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 to be notified to the Company and the Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules.

Shareholders' Interests in Securities

As at 31 December 2003, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (not being a director or the chief executive of the Company) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company:

Name of shareholder	Number of ordinary shares held	Number of share options held	Aggregate long position	Percentage of the issued share capital as at 31 December 2003
Educational Information Technology (HK) Company Limited*	108,057,374	—	108,057,374	10.95%
Crimson Asia Capital Limited, L.P.	105,203,591	—	105,203,591	10.66%
Kan Siu Kei, Laurie	41,978,000	8,000,000	49,978,000	5.06%

* These shares were held in trust for 寧夏教育信息技術股份有限公司 (Ningxia Educational Information Technology Company Limited), a company in which the Group is acquiring a 25.03% equity interest.

Save as disclosed above, at 31 December 2003, the Company had not been notified of any other interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange under Part XV of the SFO.

Competing Interest

As at 31 December 2003, none of the directors or management shareholder (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group.

Purchase, Sale or Redemption of the Company's Listed Securities

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited quarterly report for the quarter ended 31 December 2003.

On behalf of the Board

Cheng Kin Kwan

Chairman & Chief Executive Officer

Hong Kong, 11 February 2004