



Annual Report 2004

04

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.

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Directors

Executive directors

CHENG Kin Kwan

LAW Kwai Lam

CHUNG Yiu Fai

LEUNG Mei Sheung Eliza

PUN Chung Sang Trevor

SO Mi Ling Winnie

WONG Wai Ping Mandy

ZHENG Ying Yu

Independent non-executive directors

CHONG Siu Pui

NG Kwok Tung

TSANG Wai Chun Marianna

Secretary

LAW Kwai Lam

Qualified accountant

PUN Chung Sang Trevor

Compliance officer

LAW Kwai Lam

Audit committee

CHONG Siu Pui

NG Kwok Tung

TSANG Wai Chun Marianna

Registered Office

79th Floor, The Center

99 Queen's Road Central

Hong Kong

Auditors

Deloitte Touche Tohmatsu

Legal adviser

Deacons

Bankers

Hang Seng Bank Limited

DBS Bank (Hong Kong) Limited

Share Registrars

Computershare Hong Kong

Investor Services Limited

Rooms 1901-5, 19th Floor

Hopewell Centre

183 Queen's Road East

Hong Kong

Chairman's Statement

For the past year, Timeless has undergone a busy but stimulating process. We can describe it as fulfilling, progressing and fruitful. As a result thereof, our loss was reduced, our cash flow was improved, our businesses was strengthened and more opportunities are arising.

This process is also in substance the materialization of the Timeless Consolidated Platform and its increasing convergence to the market. This Consolidated Platform comprises five foundation pillars, namely technology, business, talent, location and strategic.

Technology pillar

During the year, we have completed the fundamental development of our three core technology elements, and have established the internal system connectivity among these three elements and the external application connectivity. These elements are oriented towards the three significant domains in information processing: the practical consolidation of portals, the platform environment of development and the comprehensive storage for information.

These elements were derived from sophisticated key projects and would be widely applied in a number of applications.

These technologies are Timeless "originals", meaning that we originate, oversee and control their development and that their completion comes through our own initiative and innovation.

These elements will be named with corresponding brands accordingly.

Business pillar

During the year, we made important breakthroughs for our business pillar. We finally ventured and axed out the inevitable survival path for software development entrepreneurs, that is "create a market" to prolong our life span and extend our survival space. In this information era of software dominancy, software entrepreneurs must not be thoughtlessly led by the market and end up in a state of never-ending competition.

This year, our strategic clients and partners will strongly deliver a definite and concrete message about the market to Timeless. They recognize the trend about the market created by Timeless. They benefit as a participating party, and they have devoted their support to us. This is not only the beginning, but an unequivocal support from the market as a whole.

Talent pillar

During the year, a lot of efforts were devoted to solicit and retain talents. We have put in place a large team of development expertises forming the core. The Consolidated Platform as their thoughts and their behaviour became the definite guidance for the operation of the development expertises. With the materialization of quality, these expertises were in fact functioning as the core.

Hence, we have basically assured that software development would be at low cost, short cycle and considerably efficient.

Location pillar

During the year, we leveraged on the competitive edge in the PRC, Hong Kong as well as the US and formed alliances that targeted at these markets. Attention was also given to South East Asia and India with substantial progress achieved.

This has been resulted from the adoption of relationship and connection for the creation of markets with prospects by Timeless. We believe these markets are of great potential and pending exploration by industry leaders.

Strategic pillar

During the year, the forward-thinking strategies of Timeless gave new thoughts to the market. If one says that it is a convincing success of the strategy of Timeless to become one of the first companies that listed on the Growth Enterprise Market in Hong Kong on 25 November 1999, we are sure that the strategies and decisions made in this year would ultimately prove that our past success was not just once and temporary.

Our strategy for this year would be to capitalize on the success achieved in the PRC in terms of market, resources and talent. We would also leverage on the competitive edge of the Consolidated Platform in the market. We believe both of which will create synergy for the other.

In fact, the unique source of power to drive the development of Timeless has been the Timeless Consolidated Platform itself, which is in fact a role model to exemplify and implement the competitive edge being enjoyed by the Chinese.

Conclusion

As a software company based in Hong Kong, Timeless has been, and will be persistently and consistently patriotic to both the PRC and Hong Kong. We have intentionally chosen to duly commence the operation of Timeless on 1 July 1996, exactly a year before the sovereignty of Hong Kong was returned to the PRC. In the eight years that had passed, the world, Hong Kong and Timeless had to go through crisis, difficulties and challenges one after another. Despite the difficult business environments during such an extended period, we remain dedicated to the construction of the Consolidated Platform. This is not over-confidence in oneself or reckless pursuit of an impossible dream. On the contrary, it is our strong belief in the rules of dominance of software in the real world: under the multi-tasking environment, any single platform will not be capable of offering practicable total solution. The success of the software development enterprises rests on the capabilities to link and consolidate numerous single platforms.

We are proud to announce that we have accomplished this milestone ahead of a great number of competitors. It is now the right moment for Timeless Consolidated Platform to be specifically launched to the market. We will seek to announce to the world the latest version of the "Timeless Consolidated Platform" in due course and to build it into a brand.

Let me borrow the congratulations message delivered to Timeless passionately and enthusiastically by a famous database expert in the world during his visit at the headquarters of Timeless (penthouse of The Center in Hong Kong) to conclude this statement:

"May I wish Timeless rises from the bottom and reaches its destined peak."

On behalf of the Board

Cheng Kin Kwan

Chairman and Chief Executive Officer

Hong Kong, 18 June 2004

Results for the year ended 31 March 2004

The directors continued to take a conservative approach for accounting purposes and a stringent view on recognizing revenue was still being adopted especially for contracts of relatively longer term in nature in Mainland China. The loss for the year ended 31 March 2004 was approximately HK\$38.1 million compared to a loss of approximately HK\$117.1 million in previous year. The significant decrease in the loss for the year is mainly due to the following:-

1. No impairment in value of land and buildings and product development costs are needed in this year.
2. The impairment in value of investment securities dropped from approximately HK\$11 million to approximately HK\$48,000;
3. The reduction of staff costs from approximately HK\$21.2 million to approximately HK\$15.5 million;
4. Profit on disposal of the Group's entire 7% interest in KanHan Technologies Group Limited, a company listed on GEM in Hong Kong, amounting to HK\$5.9 million;
5. Overprovision of prior years' Hong Kong Profits Tax of approximately HK\$4 million as a result of the tax refund received from the Inland Revenue Department in Hong Kong; and
6. The decrease in the share of losses of jointly controlled entities from approximately HK\$7.3 million to approximately HK\$0.7 million.

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 31 March 2004, the Group had bank balances and cash (excluding pledged bank deposits) of approximately HK\$38.8 million compared to approximately HK\$27.6 million as at 31 March 2003.

In November 2003, the Group obtained a new bank loan of HK\$40 million to replace the old bank loan of approximately HK\$23.4 million. As at 31 March 2004, the outstanding bank loan and obligations under finance lease amounted to HK\$38.8 million and HK\$0.3 million respectively. According to the terms, the new bank loan is an installment loan and will be fully repaid in 2013. The following is the maturity profile of the Group's bank loan as of 31 March 2004:

Within one year	10%
In the 2nd year	10%
In the 3rd to 10th year	80%
	<hr/>
	100%
	<hr/> <hr/>

Gearing ratio

The gearing ratio of the Group, which is calculated as the ratio of total borrowings to shareholders' funds, was 18.6% compared to 12.7% as at 31 March 2003.

Charge on the Group's assets

As at 31 March 2004, 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\$38.8 million as mentioned in the previous paragraph. Bank deposits totalling approximately HK\$10.2 million (31 March 2003: HK\$5 million) were pledged to banks for banking facilities of HK\$5 million (31 March 2003: HK\$10 million) available to the Group and a loan facility of approximately HK\$4.7 million (31 March 2003: Nil) available to a jointly controlled entity.

Capital structure

On 30 September 2003, the Company completed a top-up placing of 36,866,000 shares at a price of HK\$0.24 per share. Please refer to the Company's announcements on 17 September 2003 and 30 September 2003 for details of this top-up placing of shares.

Mr. Cheng Kin Kwan, the Chairman and Chief Executive Officer of the Group exercised his share options and as a result 4,340,000 shares of the Company were issued and allotted to him during the year ended 31 March 2004.

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 two geographical segments namely Mainland China and Hong Kong.

In respect of business segments, the Group continues to focus on software development. During the year ended 31 March 2004, the Group disposed of its entire 7% interest in KanHan Technologies Group Limited, a company listed on GEM in Hong Kong, for a consideration of approximately HK\$6.3 million and recorded a profit of approximately HK\$5.9 million.

In respect of geographical segments, there was a temporary change during the year ended 31 March 2004. Turnover generated from Mainland China represents approximately 31.3% of the total turnover of the Group during the year compared to approximately 87.5% in previous year, as the outbreak of SARS had seriously affected the business and thus the turnover of the Company's principal subsidiaries in Guangzhou and Beijing. As the Group has substantial contracts on hand and its principal operation is in Mainland China, it is expected that the level of activities in Mainland China will increase in future.

Order book and prospects for new business

The amount of orders on hand of the Group was over HK\$700 million as at 31 March 2004. Please refer to Chairman's statement for description of the prospects of the Group.

Material acquisitions and disposal of subsidiaries and affiliated companies

There was no disposal or acquisition of subsidiaries and affiliated companies during the year ended 31 March 2004.

Future plans for material investments

The Group has committed to invest in 70% interest in a company established in the People's Republic of China ("Prospective Subsidiary") through acquisition of interest in the Prospective Subsidiary from an independent third party at a consideration of RMB8 million (approximately HK\$7.5 million) and subscription of new shares in the Prospective Subsidiary amounting to RMB6 million (approximately HK\$5.6 million). Upon completion of the afore-mentioned transactions, the Prospective Subsidiary will have a registered capital of RMB20 million (approximately HK\$18.7 million).

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 31 March 2004, the Company has given corporate guarantees of HK\$45 million to banks to secure credit facilities granted to its subsidiaries. As at 31 March 2004, credit facility of HK\$38.8 million was utilized by a subsidiary.

Employee information

As at 31 March 2004, the Group employed a total staff of 72. 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.

Directors

Executive directors

Mr. Cheng Kin Kwan, aged 65, is the founder and Chairman and Chief Executive Officer of the Company. Prior to establishing the Company, Mr. Cheng has been serving the IT industry for over 30 years. He was the inventor who developed the first Chinese processing system and brought into China the first generation of image processing PC, the first dealer of Novell system in Hong Kong and China, and also, the developer of the first computer system for Hong Kong Futures Exchange. He took up various senior positions in software development companies and provided services as technical consultant for multinational vendors.

Mr. Chung Yiu Fai, aged 40, joined the Group in February 1998. Mr. Chung became the Chief Information Officer since February 2001 and assists the CEO to strategize and execute the Group's business directions and IT strategies. He has over 12 years of IT experience and substantial experience in project management in Hong Kong and China. He obtained a Bachelor of Science degree in Computer Information Science from Ohio State University and gained the Engineering Honour Student Award.

Mr. Law Kwai Lam, aged 57, is the Corporate Affairs Director and the Company Secretary of the Company. Mr. Law has been with the Group since its establishment, and has since been responsible for the Company's and the Group's administrative, legal and secretarial matters. Mr. Law holds a Bachelor degree in Biochemistry from the University of Kansas. Prior to joining the Group, Mr. Law was the Company Secretary of a listed company in Hong Kong for 10 years.

Ms. Leung Mei Sheung, Eliza, aged 39, is the Administration Director of the Group and is responsible for the overall administrative management of the Group and special assignments by the CEO. Ms. Leung joined the Group in June 1996. She has over 18 years of experience in office administration and accounting in the IT field.

Mr. Pun Chung Sang, Trevor, aged 35, is the Qualified Accountant of the Group. Before he joined the Group in October 2000, he was a senior audit manager of an international accounting firm. He holds a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University and is a fellow of the ACCA as well as an associate of the Hong Kong Society of Accountants.

Ms. So Mi Ling, Winnie, aged 36, was appointed to the Board in May 2001 and is responsible for finance and accounting of the Group. Ms. So joined the Group in April 1999, after having worked in the accounts division of a listed company in Hong Kong for over eight years. Ms. So has over 14 years of experience in finance and accounting. She holds a professional diploma in accountancy from the City University of Hong Kong, and is a fellow of the ACCA and an associate of the Hong Kong Society of Accountants.

Ms. Wong Wai Ping, Mandy, aged 41, is the Marketing Director of the Company, responsible for planning and executing marketing programmes, handling investors relationship and marketing communications, and special assignments by the CEO. She joined the Group in 1996 and has over 20 years experience in marketing in the IT field.

Ms. Zheng Ying Yu, aged 30, is the Chief Representative of the Group's Guangzhou subsidiary, responsible for market promotion, business development and the overall operation of the Guangzhou office. She joined the Group in 1998 and has eight years experience in the IT industry. Ms. Zheng holds a Bachelor of Science degree in Computer Science from ZhongShan University.

Independent non-executive directors

Mr. Chong Siu Pui, aged 34, is the General Manager of Commonwill Catering Management Company Limited and has been in the catering management business for over ten years. Mr. Chong holds a Bachelor degree in Accountancy from The Hong Kong Polytechnic University and a Master degree in Business Administration from The University of Sydney. He is a fellow of the ACCA, an associate of the Hong Kong Society of Accountants as well as an associate of the Australia Society of Accountants. Mr. Chong was appointed as an independent non-executive director in January 2002.

Mr. Ng Kwok Tung, aged 53, was appointed as an independent non-executive director in 2003. Mr. Ng is a practising accountant. He holds a Bachelor of Commerce Degree and a Licentiate in Accountancy from McGill University, Canada and a Diploma in Chinese Law from the University of East Asia, Macau. Mr. Ng is a member of the Hong Kong Society of Accountants, the Institute of Chartered Accountants of British Columbia, the Order of Chartered Accountants of Quebec, the Canadian Institute of Chartered Accountants and the Taxation Institute of Hong Kong.

Ms. Tsang Wai Chun, Marianna, aged 49, is a director of Chan & Wat, Certified Public Accountants. She is a member of the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute of Company Secretaries and the Association of Professionals in Business Management. Ms. Tsang has around 20 years of company secretarial, corporate affairs, and related legal working experience in major commercial corporations and in professional firms. She has an MBA and a postgraduate certificate in Advanced Taxation. She was appointed as an independent non-executive director in October 2003.

Senior management

Mr. Kan Siu Kei, Laurie, aged 43, is the Deputy Chief Executive Officer of the Group. He is a veteran in the Asian IT industry. Mr. Kan has held senior positions at PointCast Asia, China Internet Corporation (now Chinadotcom), Microsoft (Hong Kong) Limited and Compaq. He graduated in Business Management from Hong Kong Baptist College and from Stanford University's Executive Program.

The directors present their annual report and the audited financial statements for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company as well as engaged in the provision of computer consultancy and software maintenance services, software development and sales of computer hardware and software.

The principal activities of the Company's principal subsidiaries are set out in note 33 to the financial statements.

RESULTS

The results of the Group for the year are set out in the consolidated income statement on page 21.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 23 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out on page 24 and note 25 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

PRINCIPAL ASSOCIATES AND PRINCIPAL JOINTLY CONTROLLED ENTITIES

The principal activities of the Group's principal associates and principal jointly controlled entities are set out in notes 14 and 15 to the financial statements respectively.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Cheng Kin Kwan (*Chairman and Chief Executive Officer*)

Law Kwai Lam

Chung Yiu Fai

Leung Mei Sheung, Eliza

So Mi Ling, Winnie

Wong Wai Ping, Mandy

Zheng Ying Yu

Pun Chung Sang, Trevor

Zhang Min

(appointed on 5 February 2004)

(resigned on 29 August 2003)

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)

Independent non-executive directors:

Chong Siu Pui

Ng Kwok Tung

Tsang Wai Chun, Marianna

(appointed on 16 October 2003)

In accordance with Articles 96 and 105(A) of the Company's Articles of Association, Mr. Law Kwai Lam, Mr. Chung Yiu Fai, Mr. Pun Chung Sang, Trevor, Mr. Chong Siu Pui and Ms. Tsang Wai Chun, Marianna retire and, being eligible, offer themselves for re-election.

Each of the executive directors have entered into service contracts with the Company when they are appointed as directors of the Company. These service contracts will continue thereafter until terminated by either party giving to the other party not less than three months' notice in writing.

Each of the independent non-executive directors were appointed for a term of one year.

Save as disclosed above, none of the directors proposed for re-election at the forthcoming annual general meeting has any service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

At 31 March 2004, 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 Stock Exchange of Hong Kong Limited (the "Stock 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 Stock Exchange pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange (the "GEM Listing Rules") were as follows:

(a) Ordinary shares of the Company

Long positions

Name of director	Number of ordinary shares held			Total number of shares	Percentage of shareholding
	Personal interest	Family interest	Corporate interest		
Cheng Kin Kwan	109,000,000	—	—	109,000,000	11.01%
Law Kwai Lam	10,000,000	—	28,325,000*	38,325,000	3.87%
Chung Yiu Fai	2,420,000	—	—	2,420,000	0.24%
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%
Pun Chung Sang, Trevor	—	250,000	—	250,000	0.03%

* These shares were held by a private company which is wholly-owned by Mr. Law Kwai Lam.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES (continued)

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

Particulars of the directors' interest 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:

Long positions

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and underlying shares			
				Outstanding at 1.4.2003	Granted during the year	Exercised during the year	Outstanding at 31.3.2004
Cheng Kin Kwan	6.3.2001	6.3.2002 - 5.3.2005	0.630	1,500,000	—	—	1,500,000
	27.4.2001	27.4.2002 - 26.4.2005	0.818	500,000	—	—	500,000
	3.10.2001	3.10.2002 - 2.10.2005	0.445	800,000	—	—	800,000
	22.4.2002	22.4.2003 - 21.4.2006	0.455	650,000	—	—	650,000
	5.9.2003	5.9.2003 - 4.9.2013	0.228	—	9,000,000	2,040,000	6,960,000
	8.12.2003	8.12.2003 - 7.12.2013	0.213	—	800,000	—	800,000
	25.2.2004	25.2.2004 - 24.2.2014	0.190	—	10,000,000	2,300,000	7,700,000
Law Kwai Lam	6.3.2001	6.3.2002 - 5.3.2005	0.630	800,000	—	—	800,000
	27.4.2001	27.4.2002 - 26.4.2005	0.818	200,000	—	—	200,000
	3.10.2001	3.10.2002 - 2.10.2005	0.445	200,000	—	—	200,000
	5.9.2003	5.9.2003 - 4.9.2013	0.228	—	2,000,000	—	2,000,000
	9.1.2004	9.1.2004 - 8.1.2014	0.190	—	1,000,000	—	1,000,000
Chung Yiu Fai	6.3.2001	6.3.2002 - 5.3.2005	0.630	1,000,000	—	—	1,000,000
	27.4.2001	27.4.2002 - 26.4.2005	0.818	200,000	—	—	200,000
	3.10.2001	3.10.2002 - 2.10.2005	0.445	500,000	—	—	500,000
	22.4.2002	22.4.2003 - 21.4.2006	0.455	300,000	—	—	300,000
	5.9.2003	5.9.2003 - 4.9.2013	0.228	—	5,500,000	—	5,500,000
	8.12.2003	8.12.2003 - 7.12.2013	0.213	—	400,000	—	400,000
	25.2.2004	25.2.2004 - 24.2.2014	0.190	—	7,000,000	—	7,000,000
Leung Mei Sheung, Eliza	6.3.2001	6.3.2002 - 5.3.2005	0.630	1,000,000	—	—	1,000,000
	27.4.2001	27.4.2002 - 26.4.2005	0.818	200,000	—	—	200,000
	3.10.2001	3.10.2002 - 2.10.2005	0.445	500,000	—	—	500,000
	5.9.2003	5.9.2003 - 4.9.2013	0.228	—	5,500,000	—	5,500,000
	8.12.2003	8.12.2003 - 7.12.2013	0.213	—	4,300,000	—	4,300,000
	25.2.2004	25.2.2004 - 24.2.2014	0.190	—	6,000,000	—	6,000,000
So Mi Ling, Winnie	6.3.2001	6.3.2002 - 5.3.2005	0.630	300,000	—	—	300,000
	27.4.2001	27.4.2002 - 26.4.2005	0.818	200,000	—	—	200,000
	3.10.2001	3.10.2002 - 2.10.2005	0.445	200,000	—	—	200,000
	5.9.2003	5.9.2003 - 4.9.2013	0.228	—	2,000,000	—	2,000,000
	9.1.2004	9.1.2004 - 8.1.2014	0.190	—	1,000,000	—	1,000,000
Wong Wai Ping, Mandy	6.3.2001	6.3.2002 - 5.3.2005	0.630	800,000	—	—	800,000
	27.4.2001	27.4.2002 - 26.4.2005	0.818	200,000	—	—	200,000
	3.10.2001	3.10.2002 - 2.10.2005	0.445	500,000	—	—	500,000
	5.9.2003	5.9.2003 - 4.9.2013	0.228	—	5,500,000	—	5,500,000
	8.12.2003	8.12.2003 - 7.12.2013	0.213	—	400,000	—	400,000
	25.2.2004	25.2.2004 - 24.2.2014	0.190	—	6,000,000	—	6,000,000

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES (continued)

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

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options and underlying shares			
				Outstanding at 1.4.2003	Granted during the year	Exercised during the year	Outstanding at 31.3.2004
Zheng Ying Yu	27.4.2001	27.4.2002 - 26.4.2005	0.818	100,000	—	—	100,000
	3.10.2001	3.10.2002 - 2.10.2005	0.445	300,000	—	—	300,000
	22.4.2002	22.4.2003 - 21.4.2006	0.455	300,000	—	—	300,000
	5.9.2003	5.9.2003 - 4.9.2013	0.228	—	2,000,000	—	2,000,000
	8.12.2003	8.12.2003 - 7.12.2013	0.213	—	400,000	—	400,000
	9.1.2004	9.1.2004 - 8.1.2014	0.190	—	7,000,000	—	7,000,000
Pun Chung Sang, Trevor *	6.3.2001	6.3.2002 - 5.3.2005	0.630	200,000	—	—	200,000
	9.4.2001	9.4.2002 - 8.4.2005	0.592	100,000	—	—	100,000
	27.4.2001	27.4.2002 - 26.4.2005	0.818	100,000	—	—	100,000
	3.10.2001	3.10.2002 - 2.10.2005	0.445	200,000	—	—	200,000
	5.9.2003	5.9.2003 - 4.9.2013	0.228	—	3,500,000	—	3,500,000
	26.11.2003	26.11.2003 - 25.11.2013	0.230	—	400,000	—	400,000
	9.1.2004	9.1.2004 - 8.1.2014	0.190	—	3,000,000	—	3,000,000

* Mr. Pun Chung Sang, Trevor became a director of the Company on 5 February 2004. The options held by him on 1 April 2003 represented options granted to him in his capacity as employee before he became a director of the Company.

** All the 650,000 share options held by Mr. Zhang Min at 1 April 2003 were lapsed during the year upon his resignation as director of the Company on 29 August 2003.

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 March 2004, none of the directors or chief executive 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 Stock 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 Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 March 2004, 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 and underlying shares held	Aggregate long position	Percentage of the issued share capital as at 31 March 2004
Educational Information Technology (H.K.) Company Limited *	108,057,374	—	108,057,374	10.91%
Crimson Asia Capital Limited, L.P.**	105,203,591	—	105,203,591	10.63%
Kan Siu Kei, Laurie**	41,978,000	8,000,000	49,978,000	5.05%

* 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 Co., Ltd.), a company in which the Group held 25% equity interest.

** These shares were beneficially owned by the respective parties.

Save as disclosed above, at 31 March 2004, 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 Stock Exchange under Part XV of the SFO.

SHARE OPTIONS
(a) 2000 share option scheme

Pursuant to the share option scheme adopted by the Company on 21 November 2000 (the "2000 share option scheme"), the Company may grant options at HK\$1 per offer to any full-time employees including executive directors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares.

A summary of the share options granted under the Company's 2000 share option scheme is as follows:

Type of participants	Exercisable period	Exercise price per share HK\$	Number of share options			
			Outstanding at 1.4.2003	Reclassified during the year	Lapsed during the year	Outstanding at 31.3.2004
Directors	6.3.2002 - 5.3.2005	0.630	5,400,000	200,000	—	5,600,000
	9.4.2002 - 8.4.2005	0.592	—	100,000	—	100,000
	27.4.2002 - 26.4.2005	0.818	1,600,000	100,000	—	1,700,000
	3.10.2002 - 2.10.2005	0.445	3,060,000	200,000	(60,000)	3,200,000
	22.4.2003 - 21.4.2006	0.455	1,840,000	—	(590,000)	1,250,000
Employees	16.2.2002 - 15.2.2005	0.734	2,200,000	—	(700,000)	1,500,000
	6.3.2002 - 5.3.2005	0.630	4,300,000	(200,000)	(500,000)	3,600,000
	9.4.2002 - 8.4.2005	0.592	150,000	(100,000)	—	50,000
	27.4.2002 - 26.4.2005	0.818	400,000	(100,000)	(50,000)	250,000
	3.10.2002 - 2.10.2005	0.445	5,220,000	(200,000)	(1,310,000)	3,710,000
	22.4.2003 - 21.4.2006	0.455	6,000,000	—	(2,100,000)	3,900,000
			<u>30,170,000</u>	<u>—</u>	<u>(5,310,000)</u>	<u>24,860,000</u>

Pursuant to an ordinary resolution passed in the Company's extraordinary general meeting held on 28 April 2003, the Company has terminated the operation of the 2000 share option scheme (such that no further options could thereafter be offered under the 2000 share option scheme but outstanding options granted under the 2000 share option scheme shall remain effective subject to the relevant provisions of the 2000 share option scheme) and approved and adopted the 2003 new share option scheme (the "2003 share option scheme"). The maximum number of shares available for issue under the 2000 share option scheme is 24,860,000 shares, representing 2.5% of the issued share capital of the Company at 18 June 2004.

SHARE OPTIONS (continued)**(b) 2003 share option scheme**

The options of the 2003 share option scheme may be granted to any director, employee, consultant, customer, supplier, agent, partner, provider of financial assistance, shareholder or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Eligible Participants"), the trustee of the Eligible Participants or a company beneficially owned by the Eligible Participants. The purpose of the 2003 share option scheme is to recognise and acknowledge the contributions that the Eligible Participants had made or may make to the Group. The total number of shares available for issue under the 2003 share option scheme is 188,544,150 shares, representing 19.02% of the issued share capital of the Company at 18 June 2004. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2003 share option scheme and other share option schemes of the Company shall not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. No options may be granted to any Eligible Participants which if exercised in full would result in the total number of shares issued and to be issued upon exercise of the share options already granted to such Eligible Participants in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company as at the date of grant unless approval is obtained from the shareholders of the Company. Pursuant to an extraordinary general meeting held on 25 February 2004, ordinary resolutions were passed by the shareholders to approve the granting of options exceeding 1% limit that entitle certain Eligible Participants to subscribe for an aggregate of 49,000,000 shares. The exercisable period is determined by the board of directors in its absolute discretion, save that such period shall not be more than ten years from the date of grant. There is no generally applicable minimum period for which the options must be held before it can be exercised. An offer of the grant of an option shall be accepted when the Company receives in writing the acceptance of the offer from the grantee together with a remittance in favour of the Company of HK\$1 by way of consideration for the grant thereof. The option shall remain open for acceptance by the Eligible Participants concerned for a period of 28 days from the date of offer. The exercise price shall be determined by the board of directors at the time of grant of the relevant option and notified to each grantee and shall not be less than the highest of:

- (a) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option, which must be a business day;
- (b) an amount equivalent to the average closing price of shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option; and
- (c) the nominal value of a share.

The 2003 share option scheme is valid for a period of ten years commencing on the adoption date on 28 April 2003.

SHARE OPTIONS (continued)

(b) 2003 share option scheme (continued)

A summary of the share options granted under the Company's 2003 share option scheme, and the corresponding closing price of the Company's shares immediately before the date of grant and the weighted average closing price immediately before the date of exercise, under column A and B respectively, are as follows:

Type of participants	Exercisable period	Exercise price per share HK\$	Number of share options				Closing price	
			Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2004	A HK\$	B HK\$
Directors	5.9.2003 - 4.9.2013	0.228	35,000,000	2,040,000	—	32,960,000	0.210	0.228 & 0.200
	26.11.2003 - 25.11.2013	0.230	400,000	—	—	400,000	0.215	N/A
	8.12.2003 - 7.12.2013	0.213	6,300,000	—	—	6,300,000	0.210	N/A
	9.1.2004 - 8.1.2014	0.190	12,000,000	—	—	12,000,000	0.191	N/A
	25.2.2004 - 24.2.2014	0.190	29,000,000	2,300,000	—	26,700,000	0.226	0.231
Employees	5.9.2003 - 4.9.2013	0.228	33,800,000	—	300,000	33,500,000	0.210	N/A
	15.9.2003 - 14.9.2013	0.255	11,200,000	—	200,000	11,000,000	0.270	N/A
	26.11.2003 - 25.11.2013	0.230	7,200,000	—	—	7,200,000	0.215	N/A
	8.12.2003 - 7.12.2013	0.213	800,000	—	—	800,000	0.210	N/A
	9.1.2004 - 8.1.2014	0.190	18,800,000	22,000	—	18,778,000	0.191	0.218
	25.2.2004 - 24.2.2014	0.190	20,000,000	—	—	20,000,000	0.226	N/A
			<u>174,500,000</u>	<u>4,362,000</u>	<u>500,000</u>	<u>169,638,000</u>		

The directors of the Company consider that it is inappropriate to state the value of the options granted under the Company's share option scheme due to the following reasons:

- (i) the calculation of the value of the options will be based on a number of undetermined but crucial variables such as the exercise price payable for the shares in the Company, the number of options to be granted under the scheme during its duration, the exercisable period, interest rate, expected volatility and other relevant variables. In particular, the duration of the scheme will make these volatile variables very difficult to ascertain with accuracy;
- (ii) the generally accepted pricing models of options normally value options which are transferable but the options granted to a grantee under the scheme are personal to the grantee and are non-transferable and non-assignable and hence calculation of the value of the options granted under the scheme using such pricing models may not be appropriate; and
- (iii) the directors of the Company are of the view that the calculation on speculative assumptions would not be meaningful and would be misleading to the shareholders of the Company.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group paid property rentals of HK\$482,000 to Mr. Cheng Kin Kwan, a director of the Company.

Save as disclosed above, there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 81% of the Group's total sales while the sales attributable to the Group's largest customer was approximately 48% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 91% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 67% of the Group's total purchases.

Save as disclosed above, none of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

CORPORATE GOVERNANCE

During the year, the Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

In accordance with Rule 5.09 of the GEM Listing Rules, the Company has received annual confirmation of independence from all the independent non-executive directors and considers that the independent non-executive directors are independent.

The audit committee comprises three independent non-executive directors, Mr. Chong Siu Pui, Mr. Ng Kwok Tung and Ms. Tsang Wai Chun, Marianna. During the year, the audit committee held four meetings. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

COMPETING INTEREST

As at 31 March 2004, none of the directors or the management shareholders (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.

AUDITORS

Except for the year ended 31 March 2002 in which Messrs. PricewaterhouseCoopers acted as auditors of the Company, Messrs. Deloitte Touche Tohmatsu have acted as auditors of the Company for the past two years. A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Cheng Kin Kwan

Chairman and Chief Executive Officer

Hong Kong, 18 June 2004

Deloitte.

德勤

TO THE SHAREHOLDERS OF TIMELESS SOFTWARE LIMITED

天時軟件有限公司

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 21 to 53 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

18 June 2004

Consolidated Income Statement

For the Year Ended 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Turnover	4	9,357	27,970
Other operating income		733	3,341
Cost of computer software and hardware sold		(237)	(10,674)
Staff costs		(15,518)	(21,170)
Depreciation and amortisation		(13,322)	(12,207)
Other operating expenses		(21,698)	(22,262)
Impairment in value of investment securities		(48)	(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		(2,299)	(4,107)
Gain (loss) on disposal of investment securities		5,635	(1,874)
Loss from operations	5	(37,397)	(105,509)
Finance costs	8	(640)	(1,225)
Share of results of associates		(3,312)	(3,858)
Share of results of jointly controlled entities		(741)	(7,255)
Loss before taxation		(42,090)	(117,847)
Taxation	9	3,995	(191)
Loss before minority interests		(38,095)	(118,038)
Minority interests		6	974
Net loss attributable to shareholders		(38,089)	(117,064)
Loss per share - Basic	10	(3.94) cents	(12.35) cents

Consolidated Balance Sheet

As at 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment	11	139,501	150,790
Product development costs	12	6,008	6,238
Interests in associates	14	30,327	14,731
Interests in jointly controlled entities	15	14,219	25,227
Investments in securities	16	10,147	11,499
Deposits made for investments		—	21,207
		200,202	229,692
Current assets			
Amounts due from customers for contract work	17	4,925	8,272
Trade and other receivables	18	3,177	6,560
Taxation recoverable		—	4,348
Pledged bank deposits		10,205	5,000
Bank balances and cash		38,761	27,606
		57,068	51,786
Current liabilities			
Trade and other payables	19	6,232	6,772
Obligations under a finance lease due within one year	20	57	94
Current portion of secured long-term bank loan	21	3,756	10,000
Bank overdrafts - secured		—	3,738
		10,045	20,604
Net current assets		47,023	31,182
Total assets less current liabilities		247,225	260,874
Non-current liabilities			
Obligations under a finance lease due after one year	20	188	102
Secured long-term bank loan	21	35,003	20,000
		35,191	20,102
Minority interests		2,360	2,366
Net assets		209,674	238,406
Capital and reserves			
Share capital	23	49,503	47,443
Reserves		160,171	190,963
Shareholders' funds		209,674	238,406

The financial statements on pages 21 to 53 were approved and authorised for issue by the Board of Directors on 18 June 2004 and are signed on its behalf by:

Cheng Kin Kwan
Chairman and
Chief Executive Officer

Law Kwai Lam
Director

Balance Sheet
As at 31 March 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment	11	10,304	141,925
Product development costs	12	6,008	6,238
Interests in subsidiaries	13	106,901	8,000
Investments in associates	14	30,327	14,731
Interests in jointly controlled entities	15	14,219	25,227
Investments in securities	16	267	500
Deposits made for investments		—	21,207
		168,026	217,828
Current assets			
Amounts due from customers for contract work	17	168	234
Trade and other receivables		1,408	1,826
Taxation recoverable		—	4,300
Pledged bank deposits		5,000	5,000
Bank balances and cash		15,574	11,277
		22,150	22,637
Current liabilities			
Trade and other payables		2,127	2,292
Obligations under a finance lease due within one year	20	57	94
Current portion of secured long-term bank loan	21	—	10,000
Bank overdraft - secured		—	3,410
		2,184	15,796
Net current assets		19,966	6,841
Total assets less current liabilities		187,992	224,669
Non-current liabilities			
Obligations under a finance lease due after one year	20	188	102
Secured long-term bank loan	21	—	20,000
Amount due to a subsidiary	22	2,231	2,126
		2,419	22,228
Net assets		185,573	202,441
Capital and reserves			
Share capital	23	49,503	47,443
Reserves	25	136,070	154,998
Shareholders' funds		185,573	202,441

Cheng Kin Kwan
Chairman and
Chief Executive Officer

Law Kwai Lam
Director

Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2004

	Share capital	Share premium	Goodwill reserve	Deficit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	—	—	—	(117,064)	(117,064)
At 31 March 2003	47,443	622,635	(9,080)	(422,592)	238,406
Issue of shares	2,060	7,690	—	—	9,750
Expenses incurred in connection with the issue of shares	—	(393)	—	—	(393)
Net loss attributable to shareholders	—	—	—	(38,089)	(38,089)
At 31 March 2004	<u>49,503</u>	<u>629,932</u>	<u>(9,080)</u>	<u>(460,681)</u>	<u>209,674</u>
Attributable to					
- the Company and subsidiaries	49,503	629,932	(9,080)	(443,001)	227,354
- associates	—	—	—	(7,410)	(7,410)
- jointly controlled entities	—	—	—	(10,270)	(10,270)
At 31 March 2004	<u>49,503</u>	<u>629,932</u>	<u>(9,080)</u>	<u>(460,681)</u>	<u>209,674</u>

Consolidated Cash Flow Statement

For the Year Ended 31 March 2004

	2004	2003
	HK\$'000	HK\$'000
Operating activities		
Loss before taxation	(42,090)	(117,847)
Adjustments for:		
Interest income	(552)	(1,832)
Interest expenses	640	1,225
Dividend income from investments in securities	—	(120)
Share of results of associates	3,312	3,858
Share of results of jointly controlled entities	741	7,255
Depreciation and amortisation	13,322	12,207
Loss on disposal of property, plant and equipment	400	15
(Gain) loss on disposal of investment securities	(5,635)	1,874
Impairment in value of land and buildings	—	50,000
Impairment in value of product development costs	—	2,171
Impairment in value of investment securities	48	10,951
Impairment in value of other investments	—	1,404
Allowance for deposit made for the investment in an associate	2,299	4,107
Allowance for amounts due from customers for contract work	4,378	—
Allowance for bad and doubtful debts	735	5,209
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(22,402)	(19,523)
Decrease in amount due from jointly controlled entity	267	924
Increase in amounts due from customers for contract work	(1,031)	(2,622)
Decrease (increase) in trade and other receivables	2,648	(3,269)
Decrease in trade and other payables	(540)	(1,663)
	<hr/>	<hr/>
Cash used in operations	(21,058)	(26,153)
Hong Kong Profits Tax refunded	8,343	—
Mainland China income tax refunded	—	1,694
	<hr/>	<hr/>
Net cash used in operating activities	(12,715)	(24,459)
	<hr/>	<hr/>
Investing activities		
Interest received	552	1,832
Dividend received from investments in securities	—	120
Purchase of property, plant and equipment	(230)	(683)
Proceeds from disposal of property, plant and equipment	200	42
Product development costs paid	(1,875)	(4,914)
Repayment of advance made to a jointly controlled entity	10,000	—
Deposits paid for investments	—	(14,151)
Purchase of investments in securities	(1,009)	(10,506)
Proceeds from disposal of investment securities	7,948	1,218
(Increase) decrease in pledged bank deposits	(5,205)	30,000
	<hr/>	<hr/>
Net cash inflow from investing activities	10,381	2,958
	<hr/>	<hr/>

Consolidated Cash Flow Statement (Continued)
For the Year Ended 31 March 2004

	2004	2003
	HK\$'000	HK\$'000
Financing activities		
Interest paid	(640)	(1,225)
Proceeds from issue of shares	9,750	5,300
Expenses paid in connection with the issue of shares	(393)	(49)
Repayment of obligations under a finance lease	(249)	(86)
New bank loan raised	40,000	—
Repayment of bank loan	(31,241)	(15,000)
	<hr/>	<hr/>
Net cash inflow from (used in) financing activities	17,227	(11,060)
	<hr/>	<hr/>
Increase (decrease) in cash and cash equivalents	14,893	(32,561)
Cash and cash equivalents at 1 April	23,868	56,429
	<hr/>	<hr/>
Cash and cash equivalents at 31 March	38,761	23,868
	<hr/> <hr/>	<hr/> <hr/>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	38,761	27,606
Bank overdrafts	—	(3,738)
	<hr/>	<hr/>
	38,761	23,868
	<hr/> <hr/>	<hr/> <hr/>

1. General

The Company is a public limited company incorporated in Hong Kong and acts as an investment holding company as well as engaged in the provision of computer consultancy and software maintenance services, software development and sales of computer hardware and software. The shares of the Company are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2. Adoption of Revised Statement of Standard Accounting Practice

In the current year, the Group has adopted for the first time the Hong Kong Financial Reporting Standard ("HKFRS") - Statement of Standard Accounting Practice ("SSAP") No.12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA. The adoption of this revised SSAP 12 has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements. These changes have not had any significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment was required.

3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 March each year.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition.

Goodwill arising on acquisitions prior to 1 April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 April 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included within the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss.

3. Significant Accounting Policies (continued)

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the premium paid less amortisation and any identified impairment loss.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

In the Company's balance sheet, investments in associates are stated at cost less any identified impairment loss.

Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

In the Company's balance sheet, investments in jointly controlled entities are stated at cost less any identified impairment loss.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment loss.

Turnover

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with software development, provision of computer consultancy and software maintenance services, as well as sales of computer hardware and software.

3. Significant Accounting Policies (continued)

Revenue recognition

When the outcome of a contract for software development can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable that they are recoverable.

Sales of computer hardware and software are recognised when the goods are delivered and title has passed.

Revenue from software maintenance services is recognised when the services are provided.

Revenue from advertising is recognised when the related advertisement is placed and the services are provided.

Subscription income is recognised on a straight line basis over the period when the publication items are dispatched to subscribers.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Company's rights to receive payment have been established.

Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. Any outstanding principal portion of the leasing commitments is shown as obligations of the Group. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the period of the respective leases.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and any identified impairment loss at the balance sheet date.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

The cost of leasehold land is amortised over the period of the lease using the straight line method.

The cost of buildings is depreciated using the straight line method over 50 years or the remaining period of the relevant lease where the buildings are erected, if shorter.

3. Significant Accounting Policies (continued)

Property, plant and equipment (continued)

The cost of leasehold improvements is depreciated on a straight line basis over the period of the respective leases.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the rate of 20% per annum.

Assets held under finance leases are depreciated on the same basis as assets owned by the Group or over the period of the leases, if shorter.

Product development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated asset arising from product development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its estimated useful life.

Where no internally-generated asset can be recognised, product development expenditure is recognised as an expense in the period in which it is incurred.

Software development contracts

When the outcome of a contract for software development can be estimated reliably, contract costs are charged to the income statement with reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the proportion that costs incurred to date bear to estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. Significant Accounting Policies (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

4. 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. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Software development - software development, provision of computer consultancy and software maintenance services and sales of computer hardware and software
- Investments - investments in securities excluding investments in associates and jointly controlled entities
- Other operations - magazine publishing, provision of computer platform for educational purposes and operation of a software park

Business segments for the year are as follows:

	Turnover		Results	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Software development	9,346	27,899	(31,202)	(69,470)
Investments	—	—	5,587	(13,991)
Other operations	11	71	(3,285)	(4,996)
	9,357	27,970	(28,900)	(88,457)
Central administrative expenses			(8,497)	(17,052)
Loss from operations			(37,397)	(105,509)
Finance costs			(640)	(1,225)
Share of results of associates				
- software development			(3,312)	(3,858)
Share of results of jointly controlled entities				
- software development			(1,084)	(1,947)
- other operations			343	(5,308)
Loss before taxation			(42,090)	(117,847)
Taxation			3,995	(191)
Loss before minority interests			(38,095)	(118,038)
Minority interests			6	974
Net loss attributable to shareholders			(38,089)	(117,064)

4. Business and Geographical Segments (continued)

Business segments (continued)

	2004	2003
	HK\$'000	HK\$'000
BALANCE SHEET		
Assets		
Segment assets		
• software development		
- the Company and subsidiaries	192,062	198,680
- associates	11,419	14,731
- jointly controlled entities	4,068	5,151
• investments	10,147	11,695
• other operations		
- the Company and subsidiaries	309	21,797
- associates	18,908	—
- jointly controlled entities	10,151	20,076
Unallocated corporate assets	10,206	9,348
	257,270	281,478
	<u><u>257,270</u></u>	<u><u>281,478</u></u>
Liabilities		
Segment liabilities		
• software development	6,142	6,772
• investments	45	—
• other operations	45	—
Unallocated corporate liabilities	39,004	33,934
	45,236	40,706
	<u><u>45,236</u></u>	<u><u>40,706</u></u>

4. Business and Geographical Segments (continued)

Business segments (continued)

	2004	2003
	HK\$'000	HK\$'000
OTHER INFORMATION		
Capital additions		
• software development	3,516	6,594
• investments	1,009	10,506
• other operations	—	1
	4,525	17,101
Depreciation and amortisation		
• software development	13,086	11,971
• other operations	236	236
	13,322	12,207
Allowance for deposit made for the investment in an associate		
• other operations	2,299	4,107
Gain (loss) on disposal of listed investment securities		
• investments	5,635	(1,874)
Loss on disposal of property, plant and equipment		
• software development	400	15
Allowance for amounts due from customers for contract work		
• software development	4,378	—
Allowance for bad and doubtful debts		
• software development	735	5,209

4. Business and Geographical Segments (continued)

Geographical segments

The Group's operations are mainly situated in Hong Kong and Mainland China (the "PRC"). The following table provides an analysis of the Group's geographical segment information:

	Turnover	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong	6,426	3,506
PRC	2,931	24,464
	9,357	27,970

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	192,029	204,887	4,073	16,713
PRC	65,241	76,517	452	388
United States of America	—	74	—	—
	257,270	281,478	4,525	17,101

5. Loss from Operations

	2004	2003
	HK\$'000	HK\$'000
Loss from operations has been arrived at after charging:		
Directors' remuneration (note 6)	4,788	5,739
Other staff's retirement benefits scheme contributions	212	317
Other staff costs	12,007	18,566
	17,007	24,622
Less: Staff costs capitalised in product development costs	(1,489)	(3,452)
	15,518	21,170
Depreciation and amortisation of property, plant and equipment		
- owned by the Group	11,157	11,383
- held under a finance lease	60	86
	11,217	11,469
Less: Depreciation and amortisation capitalised in product development costs	(1,113)	(998)
	10,104	10,471
Amortisation of product development costs	3,218	1,736
	13,322	12,207
Operating lease rentals in respect of land and buildings	1,044	1,097
Less: Operating lease rentals capitalised in product development costs	(49)	(307)
	995	790
Allowance for amounts due from customers for contract work	4,378	—
Allowance for bad and doubtful debts	735	5,209
Auditors' remuneration		
- current year	780	1,077
- underprovision in prior year	200	434
Loss on disposal of property, plant and equipment	400	15
and after crediting:		
Dividend income from unlisted investments in securities	—	120
Interest income	552	1,832

6. Directors' Emoluments

	2004	2003
	HK\$'000	HK\$'000
Fees for		
- executive directors	—	—
- independent non-executive directors	246	211
	246	211
Other emoluments for independent non-executive directors	—	—
Other emoluments for executive directors		
- basic salaries and allowances	4,448	5,436
- bonus	28	20
- retirement benefits scheme contributions	66	72
	4,542	5,528
Total directors' remuneration	4,788	5,739

For the year ended 31 March 2004, basic salaries and allowances and bonus paid to the nine executive directors, analysed on an individual basis, were as follows: HK\$1,775,000, HK\$587,000, HK\$543,000, HK\$527,000, HK\$403,000, HK\$381,000, HK\$119,000, HK\$84,000 and HK\$57,000 while contributions to retirement benefits scheme in respect of the seven executive directors, analysed on an individual basis, were as follows: HK\$12,000, HK\$12,000, HK\$12,000, HK\$12,000, HK\$12,000, HK\$4,000 and HK\$2,000. Also, for the year ended 31 March 2004, the fees paid to the three independent non-executive directors, analysed on an individual basis, were as follows: HK\$100,000, HK\$100,000 and HK\$46,000.

For the year ended 31 March 2003, basic salaries and allowances and bonus paid to the ten executive directors, analysed on an individual basis, were as follows: HK\$2,313,000, HK\$680,000, HK\$667,000, HK\$613,000, HK\$468,000, HK\$468,000, HK\$90,000, HK\$89,000, HK\$41,000 and HK\$27,000 while contributions to retirement benefits scheme in respect of the seven executive directors, analysed on an individual basis, were as follows: HK\$12,000, HK\$12,000, HK\$12,000, HK\$12,000, HK\$12,000, HK\$11,000 and HK\$1,000. Also, for the year ended 31 March 2003, the fees paid to the three independent non-executive directors, analysed on an individual basis, were as follows: HK\$100,000, HK\$90,000 and HK\$21,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

7. Employees' Emoluments

The aggregate emoluments of the five highest paid individuals included four executive directors of the Company, whose emoluments are included in note 6 above. The aggregate emoluments of the remaining highest paid individual are as follows:

	2004	2003
	HK\$'000	HK\$'000
Basic salaries and allowances	1,120	630
Retirement benefits scheme contributions	13	12
	<u>1,133</u>	<u>642</u>

8. Finance Costs

	2004	2003
	HK\$'000	HK\$'000
Interest on		
- a finance lease	(15)	(26)
- bank and other borrowings wholly repayable within five years	(430)	(1,199)
- bank borrowings not wholly repayable within five years	(195)	—
	<u>(640)</u>	<u>(1,225)</u>

9. Taxation

	2004	2003
	HK\$'000	HK\$'000
Over(under)provision of Hong Kong Profits Tax	3,995	(48)
PRC income tax	—	(42)
Underprovision of PRC income tax	—	(101)
	<u>3,995</u>	<u>(191)</u>

No provision for taxation has been made in the financial statements as the Group had no assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the subsidiary in Guangzhou is entitled to a 50% tax relief 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 ended 31 December 2003 and entitled to a 50% relief for the three years ending 31 December 2006.

9. Taxation (continued)

The charge (credit) for the year is reconciled to the loss before taxation per the income statement as follows:

	2004		2003	
	HK\$'000	%	HK\$'000	%
Loss before taxation	(42,090)		(117,847)	
Tax at the applicable income tax rate	7,366	17.5	18,855	16.0
Tax effect of expenses not deductible for tax purposes	(2,647)	(6.3)	(30,746)	(26.1)
Tax effect of income not taxable for tax purposes	2,694	6.4	17,888	15.2
Tax effect of unrecognised tax losses	(9,966)	(23.7)	(5,292)	(4.5)
Tax effect on recognition of deductible temporary differences not recognised in previous years	3,635	8.6	—	—
Effect of different tax rate for subsidiaries operating in other jurisdiction	(1,384)	(3.3)	(664)	(0.6)
Others	302	0.8	(83)	(0.1)
Over(under)provision in prior year	3,995	9.5	(149)	(0.1)
Tax credit and effective tax rate for the year	3,995	9.5	(191)	(0.2)

10. Loss Per Share

The calculation of the basic loss per share is based on the net loss attributable to shareholders of HK\$38,089,000 (2003: HK\$117,064,000) and the weighted average number of 967,949,760 (2003: 947,787,010) shares in issue during the year.

No diluted loss per share has been presented in 2004 as the share options granted by the Company are anti-dilutive.

No diluted loss per share had been presented in 2003 as the exercise price of the Company's share options was higher than the average market price of the Company's shares during that year.

11. Property, Plant and Equipment

	Land and buildings HK\$'000	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1 April 2003	190,156	18,921	1,472	10,851	911	11,189	233,500
Additions	—	159	3	18	—	348	528
Disposals	—	(3)	(22)	(848)	—	(514)	(1,387)
At 31 March 2004	190,156	19,077	1,453	10,021	911	11,023	232,641
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1 April 2003	61,615	8,645	616	6,112	267	5,455	82,710
Provided for the year	3,478	3,691	264	1,588	178	2,018	11,217
Eliminated on disposals	—	(1)	(8)	(438)	—	(340)	(787)
At 31 March 2004	65,093	12,335	872	7,262	445	7,133	93,140
NET BOOK VALUES							
At 31 March 2004	125,063	6,742	581	2,759	466	3,890	139,501
At 31 March 2003	128,541	10,276	856	4,739	644	5,734	150,790
THE COMPANY							
COST							
At 1 April 2003	186,975	11,662	829	6,135	284	8,465	214,350
Additions	—	149	3	18	—	307	477
Disposals	(186,975)	—	—	—	—	(434)	(187,409)
At 31 March 2004	—	11,811	832	6,153	284	8,338	27,418
DEPRECIATION AND AMORTISATION AND IMPAIRMENT							
At 1 April 2003	60,382	5,083	361	2,778	5	3,816	72,425
Provided for the year	1,668	2,300	159	1,170	57	1,645	6,999
Eliminated on disposals	(62,050)	—	—	—	—	(260)	(62,310)
At 31 March 2004	—	7,383	520	3,948	62	5,201	17,114
NET BOOK VALUES							
At 31 March 2004	—	4,428	312	2,205	222	3,137	10,304
At 31 March 2003	126,593	6,579	468	3,357	279	4,649	141,925

11. Property, Plant and Equipment (continued)

The net book value of property interests comprises:

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Properties held under				
- medium-term leases in Hong Kong	123,733	126,593	—	126,593
- long-term land use right in the PRC	1,330	1,948	—	—
	<u>125,063</u>	<u>128,541</u>	<u>—</u>	<u>126,593</u>

At the balance sheet date, the Group has pledged its land and buildings situated in Hong Kong to a bank to secure the credit facilities granted to the Group.

In addition, at the balance sheet date, the net book value of the Group's and the Company's property, plant and equipment held under a finance lease was HK\$238,000 (2003: HK\$174,000).

12. Product Development Costs

	THE GROUP	THE COMPANY
	HK\$'000	HK\$'000
COST		
At 1 April 2002	27,254	2,250
Additions	5,912	5,912
Write-off	(25,004)	—
	<u>8,162</u>	<u>8,162</u>
At 31 March 2003	8,162	8,162
Additions	2,988	2,988
	<u>11,150</u>	<u>11,150</u>
At 31 March 2004	11,150	11,150
AMORTISATION AND IMPAIRMENT		
At 1 April 2002	23,021	188
Amortised for the year	1,736	1,736
Impairment in value	2,171	—
Eliminated on write-off	(25,004)	—
	<u>1,924</u>	<u>1,924</u>
At 31 March 2003	1,924	1,924
Amortised for the year	3,218	3,218
	<u>5,142</u>	<u>5,142</u>
At 31 March 2004	5,142	5,142
CARRYING VALUE		
At 31 March 2004	<u>6,008</u>	<u>6,008</u>
At 31 March 2003	<u>6,238</u>	<u>6,238</u>

The product development costs are amortised on a straight line basis over its estimated useful life of three years.

13. Interests in Subsidiaries

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	21,310	21,310
Less: Impairment in value	(13,310)	(13,310)
	8,000	8,000
Amounts due from subsidiaries	329,937	253,445
Less: Allowance for amounts due from subsidiaries	(231,036)	(253,445)
	106,901	8,000

Details of the Company's principal subsidiaries at 31 March 2004 are set out in note 33.

14. Interests in Associates

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share of associates' net assets	30,327	14,731	—	—
Goodwill arising on acquisition	55,114	55,114	—	—
Less: Amortisation of goodwill	(919)	(919)	—	—
Impairment in value of goodwill	(54,195)	(54,195)	—	—
Unlisted shares, at cost	—	—	94,255	73,943
Less: Impairment in value of investment	—	—	(63,928)	(59,212)
	30,327	14,731	30,327	14,731

Details of the Group's principal associates at 31 March 2004 are as follows:

Name of associate	Proportion of registered capital held directly by the Company	Principal activities
西部電子商務股份有限公司 (West China Electronic Business Company Limited)	25%	Main contractor of various information technology projects in Ningxia Hui Autonomous Region in the PRC
寧夏教育信息技術股份有限公司 (Ningxia Educational Information & Technology Co., Ltd.)	25%	Development of Education Informatisation Program in Ningxia Hui Autonomous Region in the PRC

All the above principal associates are sino-foreign joint stock limited companies established in the PRC.

In the opinion of the directors, the above associates principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

15. Interests in Jointly Controlled Entities

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Share of jointly controlled entities' net assets	13,064	13,805	—	—
Unlisted capital contributions, at cost	—	—	29,615	29,615
Less: Impairment in value	—	—	(16,551)	(15,810)
Loan to a jointly controlled entity	568	10,568	568	10,568
Amount due from jointly controlled entity	587	854	587	854
	14,219	25,227	14,219	25,227

The loan is unsecured, carries interest at 6.21% per annum and is repayable in August 2008.

Details of the Group's principal jointly controlled entities at 31 March 2004 are as follows:

Name of jointly controlled entity	Proportion of registered capital held directly by the Company	Principal activities
天津信息港互聯網數據有限公司 (Tianjin Timeless Cyber Gateway Company Limited)	33%	Provision of internet related software development and services for a term of 20 years commencing May 2001
天津時空軟件有限公司 (TTA Software Limited)	45%	Provision of computer consultancy services and sales of computer hardware and software for a term of 30 years commencing December 2001
珠海南方軟件園發展有限公司 (Zhuhai Southern Software Park Development Company Limited)	29%	Development and operation of a software park for a term of 30 years commencing November 2000

All the above principal jointly controlled entities are sino-foreign joint ventures established in the PRC.

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

16. Investments in Securities

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Held-to-maturity debt securities	—	715	—	—
Investment securities				
- Hong Kong listed shares, at cost	315	12,348	315	2,794
- overseas unlisted shares, at cost	17,780	17,780	—	—
Less: Impairment in value	(7,948)	(19,344)	(48)	(2,294)
	10,147	11,499	267	500
Market value of listed shares at 31 March	267	8,935	267	220

Details of the Group's principal investment securities at 31 March 2004 are as follows:

Name of investee	Country of incorporation	Attributable proportion of nominal value of issued capital held by the Company		Principal activities
		Directly	Indirectly	
Asia Alliance Holdings Limited	Bermuda	1%	—	Wireless communication business and provision of communication solutions consultancy services
Grenashe Group Limited	British Virgin Islands	—	12%	Trading of computer hardware and accessories
Tigermetal International Limited	British Virgin Islands	—	10%	Metal and commodities trading

17. Amounts due from Customers for Contract Work

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Contract costs incurred to date plus recognised profits less recognised loss	58,786	51,635	6,439	3,349
Less: Progress billings	(49,483)	(43,363)	(6,271)	(3,115)
Less: Allowance for amounts due from customers for contract work	(4,378)	—	—	—
	4,925	8,272	168	234

18. Trade and Other Receivables

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade receivables	461	1,246
Prepayments to suppliers	899	3,373
Rental and other deposits	736	1,506
Other receivables	1,081	435
	3,177	6,560

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 30 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Age		
0 to 30 days	445	632
31 to 60 days	—	91
61 to 90 days	16	—
Over 90 days	—	523
	461	1,246

19. Trade and Other Payables

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade payables	—	334
Customers' deposits received	2,512	2,447
Other payables	3,720	3,991
	6,232	6,772

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Age		
0 to 30 days	—	210
31 to 60 days	—	24
Over 90 days	—	100
	—	334

20. Obligations Under a Finance Lease

	THE GROUP AND THE COMPANY			
	Minimum		Present value	
	lease payments		of minimum	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount payable under a finance lease:				
Within one year	69	112	57	94
Between one to two years	69	111	60	102
Between two to five years	138	—	128	—
	276	223	245	196
Less: Future finance charges	31	27	—	—
Present value of lease obligations	245	196	245	196
Less: Amount due within one year shown under current liabilities			57	94
Amount due after one year			188	102

21. Bank Loan

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The secured bank loan is repayable as follows:				
Within one year	3,756	10,000	—	10,000
Between one to two years	3,812	10,000	—	10,000
Between two to five years	11,784	10,000	—	10,000
After five years	19,407	—	—	—
	38,759	30,000	—	30,000
Less: Amount due within one year shown under current liabilities	3,756	10,000	—	10,000
Amount due after one year	35,003	20,000	—	20,000

22. Amount due to a Subsidiary

The amount is unsecured, interest-free and has no fixed repayment terms. In the opinion of the directors, the amount is unlikely to be repaid within the next twelve months of the balance sheet date and is therefore shown in the balance sheet as non-current.

23. Share Capital

	Number of ordinary shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.05 each		
- at 1 April 2002	1,000,000,000	50,000
- increase in authorised share capital	<u>1,500,000,000</u>	<u>75,000</u>
- at 31 March 2003 and 31 March 2004	<u><u>2,500,000,000</u></u>	<u><u>125,000</u></u>
Issued and fully paid:		
Ordinary shares of HK\$0.05 each		
- at 1 April 2002	938,855,503	46,943
- issue of new shares on subscription	<u>10,000,000</u>	<u>500</u>
- at 31 March 2003	948,855,503	47,443
- issue of new shares on subscription	36,866,000	1,843
- exercise of share options	<u>4,340,000</u>	<u>217</u>
- at 31 March 2004	<u><u>990,061,503</u></u>	<u><u>49,503</u></u>

- (a) On 17 September 2003, arrangements were made for a private placement to independent private investors of 36,866,000 ordinary shares of HK\$0.05 each at a price of HK\$0.24 per share by two shareholders of the Company. The price of HK\$0.24 per share represents a discount of approximately 7.69% to the closing market price of the Company's share of HK\$0.26 per share as quoted on the Stock Exchange on 16 September 2003 being the last day of trading in the shares prior to the release of announcement.

On the same date, the Company entered into a subscription agreement with these two shareholders for the subscription of 36,866,000 new ordinary shares of HK\$0.05 each at a price of HK\$0.24 per share. The subscription price is equivalent to the placing price mentioned in the preceding paragraph. The Company used the net proceeds from the subscription which amounted to approximately HK\$8.4 million as to approximately HK\$5 million on productisation of its technologies including but not limited to search engine, workflow software and multi-media software and the remaining HK\$3.4 million as general working capital of the Group. On 30 September 2003, the new shares were issued under the general mandate granted to the board of directors at the annual general meeting of the Company held on 6 August 2003.

- (b) During the year, 2,040,000 and 2,300,000 share options were exercised at a subscription price of HK\$0.228 per share and HK\$0.190 per share respectively, resulting in an aggregate issue of 4,340,000 ordinary shares of HK\$0.05 each in the Company.

All the shares issued during the year ranked pari passu with the then existing shares in all respects.

24. Share Options

(a) 2000 share option scheme

Pursuant to the share option scheme adopted by the Company on 21 November 2000 (the "2000 share option scheme"), the Company may grant options at HK\$1 per offer to any full-time employees including executive directors of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options; the closing price of the shares on the Stock Exchange on the date of grant; and the nominal value of the shares.

Details of the movements in the number of share options during the year under the Company's 2000 share option scheme are as follows:

Type of participants	Exercisable period	Exercise price per share HK\$	Number of share options						
			Outstanding at 1.4.2002	Granted during the year	Lapsed during the year	Outstanding at 31.3.2003	Reclassified during the year	Lapsed during the year	Outstanding at 31.3.2004
Directors	6.3.2002 - 5.3.2005	0.630	5,400,000	—	—	5,400,000	200,000	—	5,600,000
	9.4.2002 - 8.4.2005	0.592	—	—	—	—	100,000	—	100,000
	27.4.2002 - 26.4.2005	0.818	1,600,000	—	—	1,600,000	100,000	—	1,700,000
	3.10.2002 - 2.10.2005	0.445	3,060,000	—	—	3,060,000	200,000	(60,000)	3,200,000
	22.4.2003 - 21.4.2006	0.455	—	1,840,000	—	1,840,000	—	(590,000)	1,250,000
Employees	16.2.2002 - 15.2.2005	0.734	3,900,000	—	(1,700,000)	2,200,000	—	(700,000)	1,500,000
	6.3.2002 - 5.3.2005	0.630	6,450,000	—	(2,150,000)	4,300,000	(200,000)	(500,000)	3,600,000
	9.4.2002 - 8.4.2005	0.592	150,000	—	—	150,000	(100,000)	—	50,000
	27.4.2002 - 26.4.2005	0.818	1,100,000	—	(700,000)	400,000	(100,000)	(50,000)	250,000
	28.6.2002 - 27.6.2005	0.996	4,500,000	—	(4,500,000)	—	—	—	—
	3.10.2002 - 2.10.2005	0.445	9,540,000	—	(4,320,000)	5,220,000	(200,000)	(1,310,000)	3,710,000
	22.4.2003 - 21.4.2006	0.455	—	7,700,000	(1,700,000)	6,000,000	—	(2,100,000)	3,900,000
			<u>35,700,000</u>	<u>9,540,000</u>	<u>(15,070,000)</u>	<u>30,170,000</u>	<u>—</u>	<u>(5,310,000)</u>	<u>24,860,000</u>

Pursuant to an ordinary resolution passed in the Company's extraordinary general meeting held on 28 April 2003, the Company has terminated the operation of the 2000 share option scheme (such that no further options could thereafter be offered under the 2000 share option scheme but outstanding options granted under the 2000 share option scheme shall remain effective subject to the relevant provisions of the 2000 share option scheme) and approved and adopted the 2003 new share option scheme ("2003 share option scheme"). The maximum number of shares available for issue under the 2000 share option scheme is 24,860,000 shares, representing 2.5% of the issued share capital of the Company at 18 June 2004.

24. Share Options (continued)

(b) 2003 share option scheme

The options of the 2003 share option scheme may be granted to any director, employee, consultant, customer, supplier, agent, partner, provider of financial assistance, shareholder or adviser of or contractor to the Group or a company in which the Group holds an interest or a subsidiary of such company ("Eligible Participants"), the trustee of the Eligible Participants or a company beneficially owned by the Eligible Participants. The purpose of the 2003 share option scheme is to recognise and acknowledge the contributions that the Eligible Participants had made or may make to the Group. The total number of shares available for issue under the 2003 share option scheme is 188,544,150 shares, representing 19.02% of the issued share capital of the Company at 18 June 2004. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the 2003 share option scheme and other share option schemes of the Company shall not, in aggregate, exceed 30% of the shares of the Company in issue from time to time. No options may be granted to any Eligible Participants which if exercised in full would result in the total number of shares issued and to be issued upon exercise of the share options already granted to such Eligible Participants in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company as at the date of grant unless approval is obtained from the shareholders of the Company. Pursuant to an extraordinary general meeting held on 25 February 2004, ordinary resolutions were passed by the shareholders to approve the granting of options exceeding 1% limit that entitle certain Eligible Participants to subscribe for an aggregate of 49,000,000 shares. The exercisable period is determined by the board of directors in its absolute discretion, save that such period shall not be more than ten years from the date of grant. There is no generally applicable minimum period for which the options must be held before it can be exercised. An offer of the grant of an option shall be accepted when the Company receives in writing the acceptance of the offer from the grantee together with a remittance in favour of the Company of HK\$1 by way of consideration for the grant thereof. The option shall remain open for acceptance by the Eligible Participants concerned for a period of 28 days from the date of offer. The exercise price shall be determined by the board of directors at the time of grant of the relevant option and notified to each grantee and shall not be less than the highest of:

- (i) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option, which must be a business day;
- (ii) an amount equivalent to the average closing price of shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the relevant option; and
- (iii) the nominal value of a share.

The 2003 share option scheme is valid for a period of ten years commencing on the adoption date.

24. Share Options (continued)

(b) 2003 share option scheme (continued)

Details of the movements in the number of share options granted during the year under the Company's 2003 share option scheme are as follows:

Type of participants	Exercisable period	Exercise price per share HK\$	Number of share options				Exercise date	Closing price* HK\$
			Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.3.2004		
Directors	5.9.2003 - 4.9.2013	0.228	35,000,000	2,040,000	—	32,960,000	21.11.2003 & 17.3.2004	0.228 & 0.200
	26.11.2003 - 25.11.2013	0.230	400,000	—	—	400,000	—	—
	8.12.2003 - 7.12.2013	0.213	6,300,000	—	—	6,300,000	—	—
	9.1.2004 - 8.1.2014	0.190	12,000,000	—	—	12,000,000	—	—
	25.2.2004 - 24.2.2014	0.190	29,000,000	2,300,000	—	26,700,000	26.2.2004	0.231
Employees	5.9.2003 - 4.9.2013	0.228	33,800,000	—	300,000	33,500,000	—	—
	15.9.2003 - 14.9.2013	0.255	11,200,000	—	200,000	11,000,000	—	—
	26.11.2003 - 25.11.2013	0.230	7,200,000	—	—	7,200,000	—	—
	8.12.2003 - 7.12.2013	0.213	800,000	—	—	800,000	—	—
	9.1.2004 - 8.1.2014	0.190	18,800,000	22,000	—	18,778,000	31.3.2004	0.218
	25.2.2004 - 24.2.2014	0.190	20,000,000	—	—	20,000,000	—	—
			<u>174,500,000</u>	<u>4,362,000</u>	<u>500,000</u>	<u>169,638,000</u>		

* This represents weighted average closing price immediately before the exercise date.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted during the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

25. Reserves

	Share premium HK\$'000	Deficit HK\$'000	Total HK\$'000
THE COMPANY			
At 1 April 2002	617,884	(280,630)	337,254
Issue of shares	4,800	—	4,800
Expenses incurred in connection with the issue of shares	(49)	—	(49)
Net loss attributable to shareholders	—	(187,007)	(187,007)
	<hr/>	<hr/>	<hr/>
At 31 March 2003	622,635	(467,637)	154,998
Issue of shares	7,690	—	7,690
Expenses incurred in connection with the issue of shares	(393)	—	(393)
Net loss attributable to shareholders	—	(26,225)	(26,225)
	<hr/>	<hr/>	<hr/>
At 31 March 2004	<u>629,932</u>	<u>(493,862)</u>	<u>136,070</u>

At the balance sheet date, the Company had no reserves available for distribution to shareholders.

26. Major Non-Cash Transactions

During the year, the Group entered into a finance lease in respect of property, plant and equipment with total capital value at the inception of the lease of HK\$298,000 (2003: Nil).

27. Unrecognised Deferred Taxation

At the balance sheet date, the Group and the Company has unutilised tax losses of approximately HK\$245 million (2003: HK\$184 million) and HK\$136 million (2003: HK\$85 million) respectively available to set off against future assessable profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit stream. These tax losses may be carried forward indefinitely except an amount of approximately HK\$23 million (2003: HK\$12 million) which may be carried forward for a maximum of five years.

28. Operating Lease Commitments

While the Company had no outstanding operating lease commitments at the balance sheet date, its subsidiaries were committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	313	343
In the second to fifth year inclusive	—	46
	<hr/>	<hr/>
	313	389
	<hr/>	<hr/>

29. Capital Commitments

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of investment in the PRC	13,084	—

30. Contingent Liabilities

At the balance sheet date, the Company has given corporate guarantees of HK\$45 million (2003: HK\$15 million) to certain banks to secure the credit facilities granted to its subsidiaries.

31. Retirement Benefits Scheme

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of trustee. The Group contributes 5% of the relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Company's PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

32. Related Party Transactions

During the year, the Group has the following significant transactions with a related company:

Name of related company	Nature of transactions	THE GROUP	
		2004	2003
		HK\$'000	HK\$'000
<i>Jointly controlled entity:</i>			
Zhuhai Southern Software Park	Software development	1,680	591
Development Company Limited	Interest income	421	854

The above transactions were carried out on terms in accordance with the mutually contracted agreements governing these transactions.

33. Principal Subsidiaries

Details of the Company's principal subsidiaries, all of which are limited liability companies and are wholly-owned by the Company, at 31 March 2004 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Principal activities
Corp-Vision Publishing Limited	Hong Kong	HK\$100,000	Magazine publishing
Expert Consulting Limited	Hong Kong	HK\$5,000,000	Provision of computer consultancy services, and development and sales of computer software
Three Principles Computer Service Company Limited	Hong Kong	HK\$5,000,000	Provision of computer consultancy services, and development and sales of computer software
天時北方軟件（北京）有限公司 (Timeless Software (Beijing) Limited)*	PRC	RMB2,000,000	Design, development and maintenance of computer software and systems as well as provision of computer consultancy services for a term of 12 years commencing July 2000
天時軟件（廣州）有限公司 (Timeless Software (Guangzhou) Limited)*	PRC	RMB10,000,000	Design, development and maintenance of computer software and systems as well as provision of computer consultancy services for a term of 10 years commencing January 1998

* Indirectly held by the Company.

Timeless Software (Beijing) Limited is a wholly foreign owned enterprise established in the PRC while Timeless Software (Guangzhou) Limited ("Timeless Guangzhou") is a sino-foreign co-operative joint venture company established in the PRC. Pursuant to the joint venture agreement, the PRC joint venture partner of Timeless Guangzhou has forfeited its economic interests in connection with the operation and management of Timeless Guangzhou in consideration for a contracted annual payment of RMB120,000. Accordingly, the Group is entitled to all the net results, risks and liabilities of Timeless Guangzhou throughout the entire co-operative joint venture period, after the payment of the pre-determined annual payment to the PRC joint venture partner. At the expiry of the co-operation period, the Group is entitled to all the remaining assets of Timeless Guangzhou.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

Financial Summary

	Year ended 31 March				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
RESULTS					
Turnover	<u>141,649</u>	<u>140,163</u>	<u>47,475</u>	<u>27,970</u>	<u>9,357</u>
Profit (loss) before taxation	74,075	42,747	(348,422)	(117,847)	(42,090)
Taxation	<u>(5,170)</u>	<u>(5,358)</u>	<u>1,500</u>	<u>(191)</u>	<u>3,995</u>
Profit (loss) before minority interests	68,905	37,389	(346,922)	(118,038)	(38,095)
Minority interests	<u>—</u>	<u>—</u>	<u>8,813</u>	<u>974</u>	<u>6</u>
Net profit (loss) attributable to shareholders	<u>68,905</u>	<u>37,389</u>	<u>(338,109)</u>	<u>(117,064)</u>	<u>(38,089)</u>
	As at 31 March				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
ASSETS AND LIABILITIES					
Total assets	575,271	670,869	407,561	281,478	257,270
Total liabilities	(58,801)	(121,590)	(54,002)	(40,706)	(45,236)
Minority interests	<u>(2,000)</u>	<u>(2,000)</u>	<u>(3,340)</u>	<u>(2,366)</u>	<u>(2,360)</u>
Shareholders' funds	<u>514,470</u>	<u>547,279</u>	<u>350,219</u>	<u>238,406</u>	<u>209,674</u>