

ThinSoft

THINSOFT (HOLDINGS) INC
博軟(控股)有限公司



WinConnect Server XP

WinConnect Server XP

WinConnect

WinConnect

BeTwin

BeTwin

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK 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 Stock 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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of ThinSoft (Holdings) Inc collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to ThinSoft (Holdings) Inc. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

The board of directors of ThinSoft (Holdings) Inc (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 as follows:

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	3	3,519	6,228	6,980	9,340
Cost of sales (before amortisation of deferred development expenditure)		(1,019)	(4,091)	(2,566)	(6,393)
Gross profit before amortisation of deferred development expenditure		2,500	2,137	4,414	2,947
Amortisation of deferred development expenditure		(1,752)	(1,709)	(3,525)	(3,418)
Gross profit/(loss)		748	428	889	(471)
Other income	3	204	25	220	59
Distribution and selling expenses		(53)	(82)	(74)	(202)
General and administrative expenses		(1,759)	(3,342)	(4,522)	(6,836)
Loss from operating activities		(860)	(2,971)	(3,487)	(7,450)
Tax	5	(129)	(17)	(129)	(17)
Net loss from ordinary activities attributable to shareholders		(989)	(2,988)	(3,616)	(7,467)
Loss per share – basic	6	HK(0.20) cent	HK(0.60) cent	HK(0.72) cent	HK(1.49) cents

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2004	31 December 2003
	<i>Notes</i>	HK\$'000 (unaudited)	<i>HK\$'000</i> (audited)
Non-current assets			
Deferred development expenditure		4,732	8,258
Fixed assets		119	251
		4,851	8,509
Current assets			
Inventories		319	636
Accounts receivable	8	1,143	1,250
Prepayments, deposits and other receivables		254	336
Cash and cash equivalents		20,743	20,964
		22,459	23,186
Current liabilities			
Accounts payable	9	48	207
Accrued liabilities and other payables		3,955	4,681
Tax payable		144	28
		4,147	4,916
Net current assets		18,312	18,270
		23,163	26,779
Capital and reserves			
Issued capital		25,063	25,063
Reserves		(1,900)	1,716
		23,163	26,779

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reserves						Total HK\$'000
	Issued capital HK\$'000	Share premium HK\$'000	Exchange translation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Reser ves total HK\$'000	
At 1 January 2003	25,000	8,501	(27)	6,840	(2,799)	12,515	37,515
Exercises of share options	40	120	-	-	-	120	160
Loss for the period	-	-	-	-	(4,479)	(4,479)	(4,479)
At 31 March 2003	25,040	8,621	(27)	6,840	(7,278)	8,156	33,196
Exercises of share options	23	13	-	-	-	13	36
Loss for the period	-	-	-	-	(2,988)	(2,988)	(2,988)
At 30 June 2003	25,063	8,634	(27)	6,840	(10,266)	5,181	30,244
At 1 January 2004	25,063	8,634	606	6,840	(14,364)	1,716	26,779
Loss for the period	-	-	-	-	(2,627)	(2,627)	(2,627)
At 31 March 2004	25,063	8,634	606	6,840	(16,991)	(911)	24,152
Loss for the period	-	-	-	-	(989)	(989)	(989)
At 30 June 2004	25,063	8,634	606	6,840	(17,980)	(1,900)	23,163

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months
ended 30 June

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH USED IN OPERATING ACTIVITIES	(409)	(4,857)
NET CASH INFLOWS FROM INVESTING ACTIVITIES	188	–
NET CASH INFLOWS FROM FINANCING ACTIVITIES	–	196
NET DECREASE IN CASH AND CASH EQUIVALENTS	(221)	(4,661)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	20,964	17,067
CASH AND CASH EQUIVALENTS AT END OF PERIOD	20,743	12,406
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	20,743	12,406

Notes:

1. Basis of preparation and principal accounting policies

The basis of preparation and accounting policies adopted for the preparation of the interim financial statements are consistent with those adopted by the Group in its annual financial statements for the year ended 31 December 2003.

2. Segment information

An analysis of the Group's revenues and results for the six months ended 30 June 2003 and 2004 by business segment is as follows:

	Software		Upgrade kits		Vertical market solutions		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue	4,524	2,962	1,626	2,806	830	3,572	6,980	9,340
Segment results	(400)	(649)	(2,060)	(2,516)	(297)	(2,902)	(2,757)	(6,067)
Interest and unallocated gains							220	59
Unallocated expenses							(950)	(1,442)
Loss from operating activities							(3,487)	(7,450)
Tax							(129)	(17)
Net loss from ordinary activities attributable to shareholders							(3,616)	(7,467)

3. Turnover and other income

Turnover represents the net invoiced sales and services rendered, less discounts, returns, and applicable goods and services taxes. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

An analysis of the Group's turnover and other income is as follows:

	For the six months ended 30 June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover:		
Sales of goods	6,980	9,340
Other income:		
Gain on disposal of investment	188	–
Interest income	32	59
	220	59
Total income	7,200	9,399

4. Loss from operating activities

The Group's loss from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	58	60

5. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the period ended 30 June 2004 (2003: Nil).

ThinSoft Pte Ltd, a company incorporated in Singapore, is subject to Singapore income tax. Singapore income tax has been provided at the rate of 22% (2003: 22%) on the estimated assessable profits arising in Singapore for the periods ended 30 June 2003 and 2004.

ThinSoft (USA) Inc, a company incorporated in the State of Delaware in the United States of America and operating in the State of California in the United States of America, is subject to the United States federal income tax at progressive rates of between 15% to 39%, and California state corporate tax at a rate of 8.84% for the periods ended 30 June 2003 and 2004, on its estimated assessable profits arising on a world wide basis.

6. Loss per share

(a) Basic

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the three months and six months ended 30 June 2004 of approximately HK\$989,000 and approximately HK\$3,616,000 respectively, and the weighted average of 501,255,000 and 501,253,434 ordinary shares respectively in issue during the three months and six months ended 30 June 2004.

The calculation of basic loss per share for the three months and six months ended 30 June 2003 is based on the net loss from ordinary activities attributable to shareholders of approximately HK\$2,988,000 and approximately HK\$7,467,000 respectively and the weighted average of 500,973,077 and 500,498,066 ordinary shares respectively issued during the periods.

(b) Diluted

The exercise of the shares options granted by the Company would have an anti-dilutive effect on the loss per share for the three months and six months ended 30 June 2003 and 2004.

7. Dividends

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the period ended 30 June 2004 (2003: Nil).

8. Accounts receivable

The Group has a policy of allowing an average credit period of 30 to 90 days to its trade customers.

An aged analysis of accounts receivable at the balance sheet date, based on invoice date, is as follows:

	30 June 2004	31 December 2003
	HK\$'000 (unaudited)	<i>HK\$'000</i> (audited)
Within 30 days	26	85
Between 31 and 60 days	32	13
Between 61 and 90 days	10	12
Between 91 and 180 days	1,075	1,140
	1,143	1,250

9. Accounts payable

An aged analysis of accounts payable as at the balance sheet date, based on invoice date, is as follows:

	30 June 2004	31 December 2003
	HK\$'000 (unaudited)	<i>HK\$'000</i> (audited)
Within 30 days	41	72
Between 31 and 60 days	-	17
Between 61 and 90 days	-	2
Between 91 and 180 days	7	21
Between 181 and 365 days	-	95
	48	207

MANAGEMENT DISCUSSION AND ANALYSIS

Operations review

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

The Group continuously channelled its resources towards implementing proactive and prudent strategies that would nurture and yield optimal growth potential in target market sectors in the longer-term perspective. These included efforts to continuously establish strategic market relationships with distributors and resellers in significant geographical markets to extend the Group's global distribution network. In terms of target vertical markets, the Group continued to spearhead and drive penetration into the education, government, healthcare, retail, small, medium and large enterprise sectors.

The Group continued to fuel market penetration by delivering unique, innovative Thin Computing software solutions that dramatically reduce the total cost of ownership without compromising computing performance and efficiency.

The ongoing drive to develop and offer new solutions enabled the Group to maintain its market leadership both as an innovative Thin Computing software solutions company as well as becoming the partner-of-choice for information technology hardware manufacturers and complementary software vendors.

The hardware manufacturers and software vendors were able to leverage on the Group's versatile software solutions to gain the competitive edge through the ability to offer elevated suites of solutions and products in their respective markets.

Through increased adoption in the marketplace, the Group's software solutions have gained a reputation for its innovativeness and versatility. The Group's software solutions have rave reviews in the global media that included the PC & CIA Magazine, Brazil, February 2004 issue and Digital Times Weekly, Latvia, 9 March 2004 issue. Corporate users have also endorsed the Group's Thin Computing software solutions including Brendan Heavey, Analyst Programmer at the Center for Research in Cardiovascular Medicine, University of Buffalo.

To complement the groundswell of attention, the Group and its market partners participated in relevant and strategic marketing and promotional events as well as tradeshow to further raise product awareness and reputation. The tradeshow participated in include Thailand Animation & Multimedia Exhibition, Thailand, January, 2004 and The 5th Exhibition of Governmental Procurement Excellent Products, South Korea, March, 2004.

Financial review

Group turnover for the six months ended 30 June 2004 decreased by 25.3% to approximately HK\$7 million when compared to approximately HK\$9.3 million in the corresponding previous period. It was affected by lower sales contributions from upgrade kits and vertical market solutions that are not as margin-rich as other products in the Group's product spectrum. However, turnover of the Group's flagship software for the six months ended 30 June 2004 increased significantly by 52.7% to approximately HK\$4.5 million as compared to approximately HK\$3 million in the corresponding previous period.

Gross profit margin before amortisation of deferred development expenditure for the six months ended 30 June 2004 increased to 63.2% as compared with 31.6% in the corresponding previous period. Gross profit margin before amortisation of deferred development expenditure was boosted by the sales contribution from the flagship software product series that have relatively higher gross profit margin. As a result, gross profit before amortisation of deferred development expenditure for the six months ended 30 June 2004 increased to approximately HK\$4.4 million as compared to approximately HK\$2.9 million for the same period in last year.

Amortisation of deferred development expenditure represented the amortisation of deferred expenditure for software and website development during the period under review.

General and administrative expenses for the six months ended 30 June 2004 decreased by 33.9% to approximately HK\$4.5 million when compared to approximately HK\$6.8 million incurred in the corresponding previous period. The improvement was the result of continuing cost management and control, operating efficiencies and improved cost effectiveness.

The Group consequently registered a loss attributable to shareholders for the six months ended 30 June 2004 of approximately HK\$3.6 million.

The Group continues to be in a strong financial position. Cash and cash equivalents as at 30 June 2004 was approximately HK\$20.7 million (31 December 2003: approximately HK\$21 million). There were no bank borrowings as at 30 June 2004 (31 December 2003: Nil).

Capital structure

There has been no change in the capital structure of the Company during the period under review. The capital of the Company comprises only ordinary shares. The Company and the Group have no borrowing and long-term debts.

Significant investments

As at 30 June 2004, the Group did not have any significant investments.

Material acquisitions and disposals of subsidiaries / Future plans for material investment

There have been no material acquisitions and disposals during the period under review. At present, the Company and the Group have no plans for material investments or capital assets.

Gearing ratio

As at 30 June 2004, the Group did not have any long-term debts and its shareholders' funds amounted to approximately HK\$23.2 million. In this regard, the Group had a net cash position and its gearing ratio should be zero (net debt to shareholders' funds) as at 30 June 2004.

Liquidity and financial resources

The Group generally financed its operations with internally generated cash flows.

As at 30 June 2004, the Group had cash and cash equivalents of approximately HK\$20.7 million as compared to approximately HK\$21 million as at 31 December 2003.

Foreign exchange exposure

It is the Group's policy to borrow in local currencies to minimise currency risk.

Charges on Group assets

As at 30 June 2004, the Group did not have any charges on its assets.

Contingent liability

The Group did not have any significant contingent liabilities as at 30 June 2004.

Employees

As at 30 June 2004, the Group had 15 full-time employees. The aggregate remuneration of the Group's employees, including that of the directors, for the period under review and the previous period amounted to approximately HK\$3 million and approximately HK\$5.5 million respectively. The Group remunerates its employees based on their performance, experience and the prevailing industry practice.

Each of the executive directors has, on 27 February 2002, entered into a director's service agreement with the Company. Under the service agreements, after each completed year of service, the remuneration payable to each of them may, subject to the discretion of the directors and they will each be entitled to a discretionary bonus provided that the audited consolidated profit after taxation and minority interests (and after the payment of such bonus) but before extraordinary items (the "Profit") of the Group for the relevant year exceeds HK\$10 million and further that the total amount of bonuses payable to all the directors for such year shall not exceed 5% of the Profit.

OTHER INFORMATION

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

At 30 June 2004, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in ordinary shares of the Company

Directors of the Company	Type of interest	Percentage of the Company's issued share capital as at 30 June 2004
Ngiam Mia Hai Bernard	Other	(note)
Ngiam Mia Hong Alfred	Other	(note)

Note: IPC Corporation Ltd ("IPC"), the ultimate holding company of the Company, is a company incorporated under the laws of Singapore and whose securities are listed on the Singapore Exchange Securities Trading Limited. At the balance sheet date, approximately 65.3% of the issued share capital of IPC is held by the public. At the date of this report, IPC holds approximately 74.81% (or 375,000,000 ordinary shares) of the issued share capital of the Company.

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

Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin are the brothers of Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred. As at the date of this report, Ngiam Mia Je Patrick, Ngiam Mia Kiat Benjamin and Essex Investment (Singapore) Pte Ltd (whose entire issued share capital is held by Ngiam Mia Je Patrick and Ngiam Mia Kiat Benjamin in the proportion of 50:50) together beneficially owned approximately 22.2% of the issued share capital of IPC.

Interest in underlying shares of the Company

Pursuant to a pre-IPO share option scheme (the "Pre-IPO Scheme") adopted by the Company on 2 February 2002, the Company had granted Pre-IPO share options on the Company's ordinary shares to the executive directors. Details of share options to subscribe for shares in the Company granted to the executive directors as at 30 June 2004 were as follows:

Directors of the Company	Number of share options outstanding as at 30 June 2004	Percentage of the Company's issued share capital as at 30 June 2004	Exercise period of share options	Exercise price per share HK\$
William Michael Driscoll (resigned on 9 July 2004)	3,600,000	0.72%	27 February 2003 to 1 February 2008	0.08
Ngiam Mia Hai Bernard	7,600,000	1.52%	27 February 2003 to 1 February 2008	0.08
Ngiam Mia Hong Alfred	7,200,000	1.44%	27 February 2003 to 1 February 2008	0.08
Directors of subsidiaries				
Ngiam Mia Je Patrick	3,600,000	0.72%	27 February 2003 to 1 February 2008	0.08
Ngiam Mia Kiat Benjamin	3,600,000	0.72%	27 February 2003 to 1 February 2008	0.08
Lau Hui Kian	3,600,000	0.72%	27 February 2003 to 1 February 2008	0.08

None of the options granted to the directors under the Pre-IPO Scheme have been exercised, cancelled or lapsed during the six months ended 30 June 2004.

On 2 February 2002, the Company adopted a share option scheme (the "Post-Scheme"), the principal terms of which were set out in the Prospectus of the Company dated 19 February 2002. No options have been granted under the Post-Scheme up to the balance sheet date.

Save as disclosed above, as at 30 June 2004, none of the directors, chief executives of the Company had registered an interest or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

At 30 June 2004, the following company (other than the directors or chief executives of the Company) had interests or short positions in the shares and underlying shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions

Name	Capacity and nature of interest	Number of ordinary shares held	Approximately percentage of the Company's issued share capital
IPC	Directly beneficially owned	375,000,000	74.81%

Save as disclosed above, as at 30 June 2004, no person or company (other than the directors and chief executives of the Company) had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Sponsor's interest

On 2 April 2004, Dao Heng Securities Limited (the "Sponsor") has been appointed to replace ICEA Capital Limited ("ICEA") as the continuing sponsor of the Company for the purpose of meeting the requirements of the GEM Listing Rules. Pursuant to a sponsor agreement dated 2 April 2004 between the Company and the Sponsor, the Sponsor is entitled to receiving a fee for acting as the Company's sponsor for the period from 2 April 2004 to 31 December 2004.

As updated and notified by the Sponsor, none of the Sponsor nor its directors, employees or associates (as defined in the GEM Listing Rules) have any interest in any class of securities of the Company or any of member company of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group during the six months ended 30 June 2004.

Directors' interest in contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies and subsidiaries was a party during the period under review.

Competition and conflict of interests

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group during the period ended 30 June 2004.

Purchase, redemption or sale of Listed Securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period ended 30 June 2004.

Board practices and procedures

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 throughout the six months ended 30 June 2004.

Compliance with Rules 5.48 to 5.67 of the GEM Listing Rules

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 June 2004. Having made specific enquiry of all directors, the Company's directors have complied with such code of conduct and required standard of dealings throughout the six months ended 30 June 2004.

Audit committee

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The audit committee comprises two members, Lee Chung Mong and Chen Tzyh Trong. Both of them are the independent non-executive directors of the Company. The Group's unaudited results for the six months ended 30 June 2004 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

Directors of the Company

Executive directors of the Company as at the date of this report are Ngiam Mia Hai Bernard and Ngiam Mia Hong Alfred and the independent non-executive directors of the Company as at the date of this report are Lee Chung Mong and Chen Tzyh Trong.

ON BEHALF OF THE BOARD

Ngiam Mia Hai Bernard

Chairman

Hong Kong, 30 July 2004