

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.

THIRD QUARTERLY RESULTS FOR 2004

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

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	4,287	7,054	11,267	16,394
Cost of sales (before amortisation of deferred development expenditure)		(1,959)	(3,821)	(4,525)	(10,214)
Gross profit before amortisation of deferred development expenditure		2,328	3,233	6,742	6,180
Amortisation of deferred development expenditure		(1,750)	(1,709)	(5,275)	(5,127)
Gross profit		578	1,524	1,467	1,053
Other income		25	208	245	267
Distribution and selling expenses		(6)	(48)	(80)	(250)
General and administrative expenses		(2,129)	(2,654)	(6,651)	(9,490)
Loss from operating activities		(1,532)	(970)	(5,019)	(8,420)
Tax	3	(42)	(367)	(171)	(384)
Net loss from ordinary activities attributable to shareholders		(1,574)	(1,337)	(5,190)	(8,804)
Loss per share – basic	4	HK(0.31) cent	HK(0.27) cent	HK(1.04) cents	HK(1.76) cents

Notes:

1. Basis of preparation and principal accounting policies

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

2. Turnover

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.

3. Tax

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the period ended 30 September 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 September 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 September 2003 and 2004, on its estimated assessable profits arising on a world wide basis.

4. 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 nine months ended 30 September 2004 of approximately HK\$1,574,000 and approximately HK\$5,190,000 respectively, and the weighted average of 501,255,000 and 501,253,960 ordinary shares respectively in issue during the three months and nine months ended 30 September 2004.

The calculation of basic loss per share for the three months and nine months ended 30 September 2003 is based on the net loss from ordinary activities attributable to shareholders of approximately HK\$1,337,000 and approximately HK\$8,804,000 respectively and 501,250,000 and 500,751,465 ordinary shares respectively deemed to have been issued and issuable 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 nine months ended 30 September 2003 and 2004.

5. Dividends

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

6. Reserves

	Share premium <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profit/ (Accumulated losses) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	8,501	(27)	6,840	(2,799)	12,515
Exercise of share options	133	–	–	–	133
Loss for the period	–	–	–	(7,467)	(7,467)
At 30 June 2003	8,634	(27)	6,840	(10,266)	5,181
Loss for the period	–	–	–	(1,337)	(1,337)
At 30 September 2003	8,634	(27)	6,840	(11,603)	3,844
At 1 January 2004	8,634	606	6,840	(14,364)	1,716
Loss for the period	–	–	–	(3,616)	(3,616)
At 30 June 2004	8,634	606	6,840	(17,980)	(1,900)
Loss for the period	–	–	–	(1,574)	(1,574)
At 30 September 2004	8,634	606	6,840	(19,554)	(3,474)

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 strengthen 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. Our Group's flagship software product WinConnect Server XP is rigorously tested and considered as the best software program by one of the leading technical product portals – tekfront.com.

To complement the groundswell of attention, the Group and its market partners participated in relevant and strategic marketing and promotional events as well as tradeshows to further raise product awareness and reputation. The tradeshows participated in include Thailand Animation & Multimedia Exhibition, Thailand, January 2004; The 5th Exhibition of Governmental Procurement Excellent Products, South Korea, March 2004; ITU Telecom Asia 2004, Boosan, South Korea, September 2004; Systems Shows 2004, Germany, October 2004 and Construct Exhibition, Sri Lanka, September 2004.

Financial review

Group turnover for the nine months ended 30 September 2004 decreased by 31.3% to approximately HK\$11.3 million when compared to approximately HK\$16.4 million in the corresponding previous period due to sales decrease from vertical market solutions which includes both hardware and software. However, turnover of the Group's flagship software for the nine months ended 30 September 2004 increased by 29.1% to approximately HK\$6.8 million as compared to approximately HK\$5.3 million in the corresponding previous period.

Gross profit margin before amortisation of deferred development expenditure for the nine months ended 30 September 2004 increased to 59.8% as compared with 37.7% 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 nine months ended 30 September 2004 increased to approximately HK\$6.7 million as compared to approximately HK\$6.2 million for the same period in last year.

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

General and administrative expenses for the nine months ended 30 September 2004 decreased by 29.9% to approximately HK\$6.7 million when compared to approximately HK\$9.5 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 of approximately HK\$5.2 million for the nine months ended 30 September 2004.

The Group continues to be in a strong financial position. Cash and cash equivalents as at 30 September 2004 was approximately HK\$21.8 million (2003: approximately HK\$20.2 million). There were no bank borrowings as at 30 September 2004 (2003: Nil).

OTHER INFORMATION

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

At 30 September 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 Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 September 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 September 2004 were as follows:

	Number of share options outstanding as at 30 September 2004	Percentage of the Company's issued share capital as at 30 September 2004	Exercise period of share options	Exercise price per share HK\$
Directors of the Company				
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 Schemes have been exercised, cancelled or lapsed during the nine months ended 30 September 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 September 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 September 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 September 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 receive 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 nine months ended 30 September 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 September 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 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 three members, Chen Tzyh Trong, Lee Chung Mong and Yeung Chi Hung. All of them are the independent non-executive directors of the Company. The Group's unaudited results for the nine months ended 30 September 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, Chen Tzyh Trong and Yeung Chi Hung.

ON BEHALF OF THE BOARD

Ngiam Mia Hai Bernard

Chairman

Hong Kong, 5 November 2004