



TIMELESS SOFTWARE LIMITED

(incorporated in Hong Kong with limited liability)

INTERIM REPORT

For the quarter ended 31 December 1999

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.

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

This announcement, for which the directors of Timeless Software Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Timeless Software Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable

Highlights

Timeless Software Limited (the “Company”) is a leading computer software services group based in Hong Kong, with an established and growing presence in the market for Internet technology. For the quarter ended 31 December 1999, despite a 14.2% decrease in turnover, the Company managed to achieve a profit of HK\$7.2 million. And for the nine months ended 31 December 1999, the Company was able to turn a loss of HK\$9.9 million into a profit of HK\$11.9 million. The Company expects the first half of year 2000 to be very promising and will continue to invest in research and development efforts to maintain its technological leadership.

RESULTS

The Board of Directors (“Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the nine and three months ended 31 December 1999 together with the comparative unaudited figures for the corresponding periods in 1998 as follows:

		Nine months ended 31 December		Three months ended 31 December	
		1999	1998	1999	1998
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	<u>38,780</u>	<u>31,464</u>	<u>7,879</u>	<u>9,181</u>
Operating profit / (loss)	3	11,928	(9,907)	7,170	(3,022)
Taxation	4	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit / (loss) attributable to shareholders		<u>11,928</u>	<u>(9,907)</u>	<u>7,170</u>	<u>(3,022)</u>
Earnings / (loss) per share - Basic	5	<u>2.53 cents</u>	<u>(4.50) cents</u>	<u>1.17 cents</u>	<u>(1.25) cents</u>

Notes:

1. Basis of presentation

The Company was incorporated in Hong Kong with its shares listed on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 25 November 1999.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with accounting principles generally accepted in Hong Kong.

The unaudited consolidated results of the Group include the results of the Company and the subsidiaries from their effective dates of acquisition using the acquisition method of accounting.

All significant intra-group transactions and balances have been eliminated on consolidation.

- Turnover represents the aggregate of the income from the provision of computer consultancy services, advertising income and subscription income.
- Included in the operating profit was an amount of approximately HK\$9,805,000 being the interest waived and written back on a loan from a past director.
- No provision for Hong Kong Profits Tax has been made as there are sufficient tax losses brought forward to set off against assessable profit for the period. Overseas taxation has not been provided in respect of the PRC subsidiaries as they had no assessable profit during the period.

No deferred taxation has been recognised in the financial statements as it is uncertain whether the deferred tax asset will crystallise in the foreseeable future.

5. Earnings / (loss) per share

The calculation of the basic earnings per share for the nine months ended 31 December 1999 is based on the profit attributable to shareholders of approximately HK\$11,928,000 (1998: loss of approximately HK\$9,907,000) and the weighted average number of 471,285,631 shares (1998: 219,927,273 shares) in issue during the period.

The calculation of the basic earnings per share for the three months ended 31 December 1999 is based on the profit attributable to shareholders of approximately HK\$7,170,000 (1998: loss of approximately HK\$3,022,000) and the weighted average number of 615,410,240 shares (1998: 241,739,131 shares) in issue during the period.

There is no diluted earnings per share since the Company has no dilutive potential shares.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the quarter ended 31 December 1999 (1998: Nil).

BUSINESS REVIEW AND PROSPECT

General

The Group generated net profit of HK\$11.9 million out of a total turnover of HK\$38.8 million for the nine months ended 31 December 1999. The figure included an exceptional item of approximately HK\$9.8 million being amount written back of the interest accrued in respect of a loan from a shareholder. Excluding that, the profit generated from operation alone was HK\$2.1 million.

Comparing to the same period in the last fiscal year, the turnover was up by 23.3% while cost was down by 21.1%. Despite this comparison, the result was actually short of expectation as most major customers had been holding back from new IT investments until the Year 2000 problem was proven to have been solved. In China and Hong Kong, the millennium date passed smoothly and the Group has witnessed substantial increase in new orders, mostly Internet-related, in the first few weeks into year 2000.

On 30 December 1999, the Company entered into an agreement that would serve to strengthen the business relationship of the Company and Cheung Kong (Holdings) Limited, one of Hong Kong's largest conglomerates. Details of the agreement were given in a circular to shareholders dated 19 January 2000.

Year 2000

All the computer systems of the Group have passed the millennium date safely. As of the date of this report, the Group has not received any complaint relating to the Year 2000 issue from customers to whom the Group has rendered services and solutions.

Internet-related business

Internet and e-Commerce related business accounted for increasing proportion of the number of new orders received by the Group since end August 1999. On 30 October 1999, the Company was awarded a contract by the Trade Development Council of Hong Kong (HKTDC) to build a state-of-the-art trade-portal. It was an important initiative by the Hong Kong Government to enhance the international image of Hong Kong and promote trading opportunities between companies in Hong Kong and their international business partners. The project has been progressing well and the completion of which will demonstrate the Group's unrivalled capabilities in building high-end portals and solidify the Group's leadership among Internet technology providers (ITP) in the Greater China region.

While many portals are being built in the Greater China region, only a few of the portal operators fully recognise the need for sophistication in the design and architecture. The Group will remain very selective in taking up new projects, focusing on quality of the customer and the business. As such, we expect our margin from this line of business will continue to grow as our solutions are becoming matured and being offered by more productized approach.

Other lines of business

Further to the discontinuation of Year 2000 services in the middle of 1999, we have also discontinued the offering of any client/server-based solutions and services, classified under “Business applications” in the prospectus dated 18 November 1999, by the end of 1999.

Apart from Internet technology and related business, which offers the highest profit margin among all lines of business of the Group, the Group will continue to grow ERP implementation and software localisation, for their stable profit margin and wide applicability in the Greater China Region.

China development

In January 2000, the Company entered into a memorandum of understanding with China Electronics Corporation, a subsidiary of the Ministry of Information Industry and SDIC Electronics Company, a subsidiary of State Development and Investment Corporation Group to jointly fund, develop and build the largest national software park in China, the Zhuhai Southern Software Park.

The three parties have reached common understanding to jointly develop three projects which are of significance to the Internet market in China and have nationwide adaptability:

1. The development of a Chinese operating system (including a localized integrated Internet platform);
2. Internet platform development tools, infrastructures and standards;
3. ITP (Internet Technology and Solution Provider) and the development of total solution for e-Commerce;

This latest development will further strengthen, tighten and enhance the IT business development and cooperation between the Company and the relevant departments in China, and enable the Group to tap into the tremendous revenue potential in this huge market for years to come.

The Group is expanding the presence and resource in its China branches. We expect the head counts in Guangzhou, Southern China branch, to be doubled by the end of the first quarter year 2000 to handle the increasing business flows in China. A representative office will be opened in Shenzhen, a city neighbouring Hong Kong in February 2000. A decision will also be made on the site of our next China branch, either Shanghai or Beijing, after assessing and comparing the business potential of the Northern and Eastern China respectively.

Listing on other markets

Since the successful listing of the Company on GEM on 25 November 1999, we have been approached by representatives from NASDAQ and some shareholders on the feasibility of listing on other international markets, such that the value of the company can be more fully reflected.

We are setting up a special task force to assess possible alternatives. The Group, however, has neither a predetermined schedule nor a specific plan at this point in time.

Joint Equity Investment with H&Q AP Fund and J.H. Whitney in i100 Corporation

The Company has on 30 January 2000 entered into a purchase agreement (the “Agreement”) with, amongst others, i100 Corporation, Asia Pacific Growth Fund III, L. P. (“H&Q AP Fund”) and J. H. Whitney IV to purchase 200,000 voting preference shares (“Preference Share”) in i100 Corporation, representing approximately 6.67 per cent of i100 Corporation’s issued capital. Pursuant to the Agreement, the purchase price per Preference Share is US\$10, and the total consideration is US\$2.0 million (equivalent to approximately HK\$15.6 million). The acquisition consideration will be satisfied by the portion set aside for such purposes of the proceeds raised from the listing in November last year.

i100 Corporation is an investment holding company set up by the conglomeration of venture capital and equity funds, IT and finance veterans and technology provider as an investment vehicle to invest in, manage and operate internet-related companies and businesses. The Company's equity participation in i100 Corporation will enhance and complement the Company's core businesses, in particular Internet technology and related services.

Outlook

We expect the first quarter of year 2000, which is also the last quarter of our current fiscal year, to be promising in term of both revenue and new orders. IT expenditure by business that were held up on account of the Year 2000 transition will be spilled over into the first half of year 2000.

Looking forward, the Group expects its Internet and related services business to grow at a promising rate as the Internet and e-Commerce continue to be the leading worldwide trend. Moreover, demand for software applications will continue to be very strong. China also remains to be a substantially under-penetrated market. With the Group's continuous efforts to further strengthen its positioning in the China market, growth in turnover is expected to continue.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 31 December 1999, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), the interests of directors, chief executives and their associates in shares of the Company were as follows:

Name	Personal interests
Mr. Cheng Kin Kwan ¹	48,400,000 shares
Mr. Cheng Wan Cheung, Danny ¹	42,400,000 shares
Mr. Kan Siu Kei, Laurie ¹	42,400,000 shares
Mr. Law Kwai Lam	10,000,000 shares
Mr. Poon Cho Yiu, Ronald	1,000,000 shares

1. *Mr. Cheng Kin Kwan, Mr. Cheng Wan Cheung, Danny and Mr. Kan Siu Kei, Laurie are initial management shareholders as defined in Rule 13.15(2) of the GEM Listing Rules. Their holdings represent respectively 6.45%, 5.65% and 5.65% of the issued share capital.*

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held in trust for the Group, at 31 December 1999, none of the directors, chief executives or their associates had any interests in any securities of the Company or any associated corporations as defined in the SDI Ordinance.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

As at 31 December 1999 neither the Company nor any of its subsidiaries was a party to any arrangements to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the directors, chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

Other than the interests disclosed above in respect of directors, chief executives and their associates, at 31 December 1999, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons were interested in 10 per cent. or more of the issued share capital of the Company were as follows:

Name	Number of shares	Percentage of issued share capital
Crimson Asia Capital Limited, L.P.	144,786,580	19.30%
Encore Holdings Limited	113,300,000	15.11%

MANAGEMENT SHAREHOLDERS

Save for the initial management shareholders as herein-above disclosed, the directors are not aware of any persons who as at 31 December 1999 were entitled to exercise or control the exercise of 5 per cent. or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

Save as disclosed herein, the directors are not aware of, as at 31 December 1999, any business or interest of each director, initial management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

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

During the period from 25 November 1999 (date of listing) to 31 December 1999, there were no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

INTEREST OF SPONSOR

The Sponsor of the Company, ING Barings Asia Limited, its directors, employees and associates, at 31 December 1999, did not have any interest in the securities of the Company or any member 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.

ING Barings Asia Limited has entered into a sponsorship agreement with the Company whereby, for a fee, ING Barings Asia Limited will act as the Company's continuing sponsor for the period from 18 November 1999 to 31 March 2002.

AUDIT COMMITTEE

As required by Rule 5.23 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference which deal clearly with its authority and duties. The audit committee's principal duties are the review and supervision of the Company's financial reporting process and internal control systems.

By Order of the Board
Cheng Kin Kwan
Chairman

Hong Kong, 8 February 2000

This announcement will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the day of its posting.