



# **TIMELESS SOFTWARE LIMITED**

*(incorporated in Hong Kong with limited liability)*

## **INTERIM REPORT**

**For the quarter ended 31 December 2001**

### **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.*

## RESULTS

The Board of Directors (“Board”) of Timeless Software Limited (“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 2001 together with the comparative unaudited figures for the corresponding periods in 2000 as follows:

		Nine months ended		Three months ended	
		31 December		31 December	
		2001	2000	2001	2000
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	76,747	109,145	31,524	50,124
Other revenues	2	<u>5,127</u>	<u>31,748</u>	<u>701</u>	<u>3,794</u>
		81,874	140,893	32,225	53,918
Cost of sale of third party computer software and hardware		(3,955)	(50,764)	(1,180)	(33,294)
Staff costs		(26,231)	(30,081)	(8,815)	(9,270)
Depreciation and amortisation		(12,489)	(3,912)	(4,778)	(1,716)
Other operating expenses		<u>(27,695)</u>	<u>(12,140)</u>	<u>(10,905)</u>	<u>(4,689)</u>
Operating profit		11,504	43,996	6,547	4,949
Finance costs	3	(3,688)	(4,791)	(936)	(883)
Share of loss of associate		(3)	—	(3)	—
Share of results of jointly controlled entities		<u>(311)</u>	<u>—</u>	<u>11</u>	<u>—</u>
Profit before taxation		7,502	39,205	5,619	4,066
Taxation	4	<u>—</u>	<u>(5,500)</u>	<u>—</u>	<u>(400)</u>
Profit after taxation		7,502	33,705	5,619	3,666
Minority interests		<u>1,756</u>	<u>—</u>	<u>780</u>	<u>—</u>
Profit for the period retained		<u><u>9,258</u></u>	<u><u>33,705</u></u>	<u><u>6,399</u></u>	<u><u>3,666</u></u>
Earnings per share - Basic	5	<u>1.15 cents</u>	<u>4.49 cents</u>	<u>0.77 cents</u>	<u>0.49 cents</u>

Notes:

1. **Basis of presentation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention.

The unaudited consolidated results include the results of the Company and all its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the period are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. **Revenue and turnover**

The Group is principally engaged in the provision of computer consultancy and customer relationship management services, development of computer software, sale of third party computer hardware and software, and magazine publishing. Revenues recognised during the period are as follows:

	<b>Nine months ended</b>		<b>Three months ended</b>	
	<b>31 December</b>		<b>31 December</b>	
	<b>2001</b>	<b>2000</b>	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
Income from the provision of computer consultancy services	71,262	53,916	29,845	15,911
Sale of third party computer hardware and software	4,906	55,066	1,352	34,152
Income from the provision of customer relationship management services	444	—	271	—
Advertising income	125	133	49	57
Subscription income	<u>10</u>	<u>30</u>	<u>7</u>	<u>4</u>
	<u>76,747</u>	<u>109,145</u>	<u>31,524</u>	<u>50,124</u>
Other revenues				
Interest income	4,410	10,680	605	2,647
Write back of long outstanding payables and provisions	165	41	—	—
Dividend income	144	—	—	—
Realised gain on investment securities	67	20,565	—	1,057
Convertible loan note interest	254	—	64	—

	Nine months ended		Three months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net exchange gain/(loss)	—	292	—	(9)
Miscellaneous income	<u>87</u>	<u>170</u>	<u>32</u>	<u>99</u>
	<u>5,127</u>	<u>31,748</u>	<u>701</u>	<u>3,794</u>
Total revenues	<u><u>81,874</u></u>	<u><u>140,893</u></u>	<u><u>32,225</u></u>	<u><u>53,918</u></u>

### 3. Finance costs

	Nine months ended		Three months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on				
Convertible note	1,715	1,616	463	873
Bank loan	1,949	—	465	—
Acquisition of land and building				
paid to vendor	—	3,145	—	—
Finance lease	<u>24</u>	<u>30</u>	<u>8</u>	<u>10</u>
	<u><u>3,688</u></u>	<u><u>4,791</u></u>	<u><u>936</u></u>	<u><u>883</u></u>

### 4. Taxation

	Nine months ended		Three months ended	
	31 December		31 December	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	<u>—</u>	<u>5,500</u>	<u>—</u>	<u>400</u>

No Hong Kong profits tax has been provided in the accounts as the Group has no assessable profit for the period.

No provision for income tax of the People's Republic of China ("PRC") has been made in the accounts as the subsidiaries in the PRC have no assessable profits for the period under review. The subsidiaries in the PRC are entitled to 100% tax relief for the year ended 31 December 2000 and the year ended 31 December 2001.

No provision for taxation for an overseas subsidiary is required as this overseas subsidiary has no assessable profit for the period.

No deferred tax asset has been recognised in the accounts as the crystallisation of the deferred tax asset in the foreseeable future is uncertain.

## **5. Earnings per share**

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders for the nine and three months ended 31 December 2001 of HK\$9,258,000 and HK\$6,399,000 (2000: HK\$33,705,000 and HK\$3,666,000) and the weighted average number of 808,483,653 shares and 830,798,129 shares (2000: 750,414,545 shares and 751,239,130 shares) in issue during the periods.

No diluted earnings per share has been presented for the nine and three months ended 31 December 2001 as there is no material dilution arising from the share options granted by the Company and the outstanding convertible note has anti-dilutive effect.

No diluted earnings per share has been presented for the nine and three months ended 31 December 2000 as the outstanding convertible note has anti-dilutive effect.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the quarter ended 31 December 2001 (2000: Nil).

## **MOVEMENT OF RESERVES**

There was no movement in reserves except for the profit attributable to shareholders for the three months ended 31 December 2001.

## **BUSINESS REVIEW AND OUTLOOK**

### **1. A business review**

November 25, 2001 was the second anniversary of both the Growth Enterprise Market (GEM) of the Stock Exchange of Hong Kong Limited and the Company's listing on the GEM board. This date not only brought back fond memory of the tremendous hurdles the Company had had to overcome to achieve the listing in record-breaking time two years ago, but also recorded two particularly difficult years full of challenges and struggles, especially for a growth-oriented enterprise such as the Group.

Reminiscence aside, I am glad to report to the shareholders that, at this point of time, the Group's prospects outweigh difficulties, and opportunities outweigh challenges.

Ever since it was formed, the Group's enduring strategy has always been to build on its solid foundation, to constantly expand and extend its consolidated software development capability and to tie such consolidated capability in with what the market most desired.

The solid foundation refers to the unique Timeless consolidated platform (Timeless ITP), which has gradually evolved from an Internet technology platform to an information technology platform.

The consolidated development capability would enable the Group to come up with various platform products, platform solutions or even mono-platforms that cater for specific industries.

With regard to tying technology with market, it refers to Timeless' technology market and Timeless' market technology; the former means that the technology developed by Timeless is utilized by the market and the latter means that Timeless is capable of successfully developing technologies, whether in need urgently or in the future, ahead of others. This fusion of technology and market extends to cover interaction between platform technology and capital market.

This is Timeless' fundamental belief, and this is the difficulty involved in its implementation.

## **2. Another profitable quarter**

The Group maintained to be profitable in the quarter under review. Total revenues amounted to approximately HK\$32.2 million. Profit before taxation was approximately HK\$5.6 million, representing an increase of 38.2% over that of the last corresponding period and 3.9 times of that for the second quarter.

This was the first time since the burst of the technology bubble that the Group has seen its trend of declining profits interrupted, an encouraging sign attributable to the value of the Group's consolidated platform being increasingly recognized.

## **3. Consolidation**

The company-wise consolidation, which was proposed in the first quarter, continued in the period under review: for the affiliates, strict discipline was applied to control expenses, loss-making businesses were dropped and co-operations with Timeless' core business were strengthened to improve their prospects towards profitability. Through consolidation, this group of affiliates "revolved around" the Group and played multiple roles: as strategic users, strategic partners and as pilots for market testing of the Group's developed software. The positioning of the affiliates was just an example of how the interaction between market and technology was applied in actual practice.

On the company's operational hierarchy, we formalised the vertical management structure comprising the internal finance department, the co-ordination committee and the execution committee, thereby uplifting operation efficiency and flexibility enormously.

The subsidiary in the U.S. is adjusting well to post-911 effects, with its commercial orientation basically ascertained.

#### **4. Projects**

During the quarter, we reinforced our project management and attained significant progress. In Hong Kong, the first phase of the Hong Kong Tourism Board project was accomplished and the Greenlabs project (worth HK\$6 million) was basically completed. In mainland China, the Internal Authentication project for Guangdong Province Telecom (a subsidiary of China Telecom), the AnSheng information surveillance system, the Informatization project of Guangzhou Daily, and the Beijing Sports Bureau project relating to the coming Olympics were all basically completed. Large-scale projects for the informatization of NingXia including Information Kiosk, e-Commerce, e-Government were progressing smoothly.

Elsewhere, the first phase of the Tianjin Information Port, the preparation for the second phase project of Zhuhai Southern Software Park (a national-class software development base) and the first software export base in China founded on modern international logistics as the core are on course.

In the U.S., the Mediafriendly project is being carried out zealously.

Furthermore, we have signed an additional contract in Ningxia (worth RMB 200 million) for a provincial education informatisation project in the current quarter.

As such, orders on hand at the end of the quarter totalled over HK\$670 million.

These projects, in addition to being the major source of the Group's revenue stream, represent the application of the consolidated platform to meet actual market needs, which in turn form the backbone for the Group to eventually win certain standards.

#### **5. Outlook**

Global economic conditions and the future direction of technology remain fuzzy, a clear signal for the Group to stay cautious.

The demand by the market of the scope or areas to be covered by technologies are constantly widening; the technology required to achieve this ever-widening coverage increasingly relies on the competence of software development; and the competence of the software development would, in turn, be increasingly dependent on its cross-platform capability. To satisfy this chain of demands, a solid foundation, continuity in development efforts and technological capability to effect comprehensive coverage are required. To this end, the Group has set its sight to master the very difficult but indispensable system technology in the coming year.

This is aimed at the PRC market, in particular, the informatisation of logistics, education and enterprises in the country. Informatisation is the process strongly promoted by the Chinese government and involves the adoption of innovative technologies to facilitate further industrialization and economic growth and to smoothen the transformation of traditional enterprises into modern profitable businesses.

In tomorrow's world, we see an open China and we will also see a world open to China. As such, the Group's strategy of software technology developed in China for China is but the natural reflection of this coming reality.

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES**

At 31 December 2001, the interests of the directors and chief executives in the shares and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

### (a) Ordinary shares of the Company

	<b>Shares</b>	
	<b>Personal interests</b>	<b>Corporate interests</b>
Mr. Cheng Kin Kwan	68,000,000	—
Mr. Law Kwai Lam	10,000,000	28,325,000*
Mr. Chung Yiu Fai	2,700,000	—
Ms Leung Mei Sheung, Eliza	1,030,000	—
Mr. Lin Kai Horng	250,000	—
Ms Wong Wai Ping, Mandy	1,100,000	—
Ms Chan Vivien	50,000	—



Mr. Cheng Kin Kwan is an initial management shareholder as defined in Rule 13.15(2) of the GEM Listing Rules. His holding represents 8.18% of the issued share capital of the Company.

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

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

	<b>Options</b>			<b>As at 31 December 2001</b>
	<b>As at 30 September 2001</b>	<b>Granted during the period</b>	<b>Exercised during the period</b>	
Mr. Cheng Kin Kwan	2,000,000	800,000	—	2,800,000
Mr. Law Kwai Lam	1,000,000	200,000	—	1,200,000
Mr. Chung Yiu Fai	1,200,000	500,000	—	1,700,000
Ms Leung Mei				
Sheung, Eliza	1,200,000	500,000	—	1,700,000
Mr. Lin Kai Horng	1,200,000	500,000	—	1,700,000
Ms So Mi Ling,				
Winnie	500,000	200,000	—	700,000
Ms Wong Wai Ping,				
Mandy	1,000,000	500,000	—	1,500,000
Ms Zhang Hong	500,000	1,000,000	—	1,500,000

The options were granted under the Share Option Scheme approved by the shareholders at an extraordinary general meeting on 21 November 2000. The options are exercisable at varying prices ranging from HK\$0.445 to HK\$0.818 per share at any time within three years commencing one year after the respective dates of offer of the grants.

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held in trust for the Group, at 31 December 2001, none of the directors, chief executives or their associates had any interests in any securities of the Company and its associated corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangement 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.

## **SUBSTANTIAL SHAREHOLDERS**

At 31 December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholder's interest, being 10% or more of the Company's issued share capital. This is in addition to the interests of the directors and chief executives disclosed above.

	<b>Number of shares</b>	<b>Percentage of issued share capital</b>
Crimson Asia Capital Limited, L.P.	114,971,155	13.84%

## **COMPETING INTEREST**

Save as disclosed herein, the directors are not aware of, as at 31 December 2001, any business or interest of each director, 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**

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the period.

## **INTEREST OF SPONSOR**

To the best knowledge of ING Bank N.V. ("ING Bank"), the Company's sponsor, ING Bank, its directors, employees and associates did not hold any shares of the Company as at 31 December 2001.

Pursuant to the agreement dated 13 November 2001 entered into between the Company and ING Bank whereby, for a fee, ING Bank will act as the Company's sponsor for the period from 13 November 2001 to 31 March 2002.

## AUDIT COMMITTEE

The Audit Committee has reviewed with management with the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited interim report for the quarter ended 31 December 2001.

On behalf of the Board  
**Cheng Kin Kwan**  
*Chairman*

Hong Kong, 7 February 2002

*This announcement will remain on the GEM website ([www.hkgem.com](http://www.hkgem.com)) on the “Latest Company Announcements” page for at least 7 days from the day of its posting and on the Company’s website ([www.timeless.com.hk](http://www.timeless.com.hk)).*