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*This announcement, for which the directors of the Company (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. 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.*



**TIMELESS SOFTWARE LIMITED**  
*(Incorporated in the Hong Kong with limited liability)*

**CLARIFICATION ANNOUNCEMENT**

The Directors would like to clarify certain issues in relation to the Company’s results for the year ended 31 March 2002 as disclosed in the Company’s results announcement dated 21 June 2002.

Reference is made to the Company’s results announcement made on 21 June 2002 in respect of the year ended 31 March 2002 (the “**Results Announcement**”). Terms used in this announcement shall have the same meaning as those used in the Results Announcement, unless otherwise specified.

The Directors would like to clarify certain issues in relation to matters disclosed in the Results Announcement.

*Accrued revenues*

The disruptions engendered by the tragic 9-11 events had been immense but the effective countermeasures undertaken by the U.S. had initially provided assurance that the consequent deceleration in business activity among the world economies would be isolated or contained. That hope was decisively dashed by the series of major corporate failures in the U.S., which

introduced new sources of uncertainty that began to press down on business and consumer confidence. The uncertainties accompanying these unfolding events had serious implications for economies almost everywhere. Into May 2002, the Directors believe that there are strong evidence to suggest that recovery from weakness in world economic activity, particularly the retrenchment in the high-technology sector may not be achieved quickly and easily.

The Directors regularly review the estimates of the Group's work-in-progress and revenues based on certain criteria such as the progress of projects, stages of completion and prevailing market conditions. In accordance with paragraph 19 of the Statement of Standard Accounting Practice No. 18 "Revenue" issued by the Hong Kong Society of Accountants ("**HKSSAP 18**"), all of the following criteria have to be satisfied in order for revenue to be recognized:

- (1) the amount of revenue can be measured reliably;
- (2) it is probable that the economic benefits associated with the transaction will flow to the enterprise;
- (3) the stage of completion of the transaction at the balance sheet date can be measured reliably; and
- (4) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The above criteria have been consistently applied by the Directors in determining the revenue recognition throughout the entire financial year. One of the above criteria (i.e. criteria 2) under HKSSAP 18 for determining whether or not work-in-progress is recognized as revenue is the likelihood of economic benefit which might flow from such work-in-progress towards the Group (the "**Estimation Criteria**"). The Company has customarily recognised work-in-progress (i.e. work done but not billed) as revenue rather than account receivables (i.e. work done and billed).

Applying the same criteria, the Directors were of the view that the likelihood of the in-flow of economic benefit of such work-in-progress for the 9 months ended 31 December 2001 was high at the time when the various quarterly results were announced. However, in view of the recent international accounting failures, the general climate favouring more conservative approach in accounting, and the poor market sentiment (as evidenced by the various economic indicators published by the international community, the absence of

any increase in interest rates by the U.S., the British and the European central banks, the poor performance of companies across the world, notably the corporate failures in the U.S., the lack of strong evidence of growth in the PRC following its accession into the World Trade Organisation) in the period since the release of the 3rd quarterly results of the Company during the financial year, the Directors are currently of the view that the likelihood of the in-flow of economic benefit of such work-in-progress for the entire financial year are not high and therefore decided to recognize a relatively smaller amount of revenue for the entire year ended 31 March 2002 having due regard to the Estimation Criteria. This in turn has the net effect of reversing and deferring recognition of the work-in-progress of certain of the Group's ongoing projects having due regard to the Estimation Criteria. These projects consist of an U.S.-based project and a series of PRC-based projects, which are of substantial value and complexity.

#### *U.S. project*

Based on the above reasons, the Directors believe that the U.S.-based project is susceptible to the less favourable market conditions in the U.S. and therefore decided to recognize the revenue on a cash basis. This has the effect of reversing the accounting recognition of work-in-progress of approximately HK\$14.4 million which was previously recorded in the Company's unaudited results for the 9 months ended 31 December 2001. The U.S. project is currently expected to be completed on or about 30 November 2002.

#### *PRC projects*

Based on the same reasons, the Directors believe that the PRC-based projects are relatively longer term in nature and are inherently susceptible to various international market and industry-related uncertainties, and therefore decided to recognize revenue on a cash basis and reverse the accounting recognition of work-in-progress of approximately HK\$21 million which was previously recorded in the Company's unaudited results for the 9 months ended 31 December 2001, and defer the accounting recognition of work-in-progress of approximately HK\$49 million which would have been recognized during the 3 months ended 31 March 2002 but for the above reasons. The various PRC projects are currently expected to be completed between 31

December 2003 and 31 December 2004 respectively. The following table sets out the detailed breakdown of the aggregate of the provisions of HK\$21 million and HK\$49 million in respect of the PRC projects:

Name of project	Contract sum <i>HK\$' million</i>	Status of work in progress as at 31 March 2002	Estimates of unrecognized revenue as at 31 March 2002 <i>HK\$' million</i>
Certification Centre	46.7	39%	16.4
Internet Data Centre Informatisation	93.5	35%	6.5
Infrastructure	280.4	47.6%	44.5
Electronic Business Platform	9.3	100%	9.3
The City Commercial Information Environment Platform	74.8	45%	<u>10.7</u>
Less: Cash received			<u>87.4</u> <u>(20.0)</u>
Others			67.4 <u>2.6</u>
			<u>70.0</u>

Based on the above reversals and deferrals, the following table sets out the reconciliation between the quarterly results for the 9 months ended 31 December 2001 and the final results for the entire financial year ended 31 March 2002:

	<i>HK\$' million</i>
Turnover for Q1 to Q3	77.0
Less: Recognised amount that has been reversed	(35.4)
Turnover for Q4	<u>6.4</u>
Turnover for the year	<u>48.0</u>

Such work-in-progress will be recognized by the Group at the time when the Directors consider that the relevant projects are in more advanced stages and when the international market conditions improve. The Directors would further stress that such conservative views on some of its ongoing projects and investments do not constitute a change in the Group's general accounting policies but rather, it signifies prudent management of higher-risk ventures in the light of uncertain market conditions. On the above basis, the Directors firmly believe that there has not been any mis-statement in the Group's unaudited quarterly results for the period ended 31 December 2001. In this regard, the Directors will engage a firm of auditors to discuss the bases on which the quarterly results were compiled and make further announcements as and when the Directors consider necessary.

#### *Provisions for account receivables*

Provisions of approximately HK\$30 million have been made for certain account receivables that have been due for over a year or in which recoverability is doubtful. In the light of the global economic downturn and the difficulties of collecting debts generally, the Directors believe it is prudent to make such provisions. Save and except for the conversion into additional equity interests in certain investee companies in settlement of the account receivables as disclosed in the Company's Annual Report 2001, which are not related to the current provisions for account receivables, there was no such arrangement during the current year.

#### *Provisions for investment securities and other investments*

Provisions of approximately HK\$109 million have also been made to certain of the Group's investments, primarily in technology companies, after taking into consideration various factors including but not limited to the post-investment performance of the investments and the Directors' perception of market conditions for such investments in the near future. These investments have been written down to fair values, which the Directors believe is in line with their prudent management of the Company. In particular, investments in listed equities have been written down to market values as at 31 March 2002 whilst some of the investments in private equities have been fully provided for after taking into consideration the aforesaid factors. Out of the provision of approximately HK\$109 million, approximately HK\$8 million are accounted for the equity interests in an investee company which had previously been converted in settlement of the account receivables as disclosed in the Company's Annual Report 2001. The following table sets out a detailed breakdown of the provisions made for the Group's investment securities and other investments:

*HK\$' million*

Listed Company	26.0
Private Company	7.8
Private Company	24.3
Private Company	10.1
Private Company	20.1
Private Company	12.8
Listed Company	5.9
Other private and listed companies	<u>2.7</u>
	<u>109.7</u>

*Write-down of goodwill on acquisition of subsidiaries and associated companies*

Certain subsidiaries and associated companies (or prospective associated company), primarily with businesses in the PRC and technology industry, are still in an early stage of development and merely for the sake of prudence, the Directors of the Company have decided to full make provision of approximately HK\$152 million on the goodwill on acquisition of these subsidiaries and associated companies. Out of the aggregate provision of approximately HK\$152 million, the majority portion of approximately HK\$54.2 million and HK\$66.5 million are accounted for the write-down of goodwill of West China Electronic Business Company Limited and Ningxia Educational Information Technology Company Limited, two of the Group's associated companies with businesses in the PRC, which were previously acquired by the Group at the consideration of approximately HK\$73.9 million and approximately HK\$91.8 million respectively. Approximately HK\$10 million out of the aggregate provision of approximately HK\$152 million are also accounted for the write-down of goodwill acquired from the acquisition of an investee company, the equity securities of which had previously been converted in settlement of the account receivables as disclosed in the Company's Annual Report 2001.

**Investors are advised to exercise caution in dealing in the securities of the Company.**

By Order of the Board  
**Law Kwai Lam**  
*Company Secretary*

Hong Kong, 5 July 2002

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at <http://www.hkgem.com> for at least seven days from the date of its publication and on the Company's website at <http://www.timeless.com.hk>.*