



Timeless Software Limited

(incorporated in Hong Kong with limited liability)

RESULTS ANNOUNCEMENT For the year ended 31 March 2003

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.

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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 audited consolidated results of the Company and its subsidiaries (“Group”) for the year ended 31 March 2003 together with the comparative audited figures for the corresponding period in 2002 as follows:

Consolidated income statement

For the year ended 31 March 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	2	27,970	47,475
Other operating income		3,341	6,291
Cost of computer software and hardware sold		(10,674)	(5,784)
Staff costs		(21,170)	(32,540)
Depreciation and amortisation		(12,207)	(17,424)
Other operating expenses		(22,262)	(60,328)
Impairment in value of land and buildings		(50,000)	—
Impairment in value of goodwill		—	(85,755)
Impairment in value of product development costs		(2,171)	(17,867)
Impairment in value of investment securities		(10,951)	(81,642)
Impairment in value of other investments		(1,404)	(28,008)
Allowance for deposit made for the investment in an associate		(4,107)	(66,526)
Loss on disposal of listed investment securities		<u>(1,874)</u>	<u>—</u>
Loss from operations	3	(105,509)	(342,108)
Finance costs	4	(1,225)	(4,145)
Share of losses of associates		(3,858)	(240)
Share of losses of jointly controlled entities		<u>(7,255)</u>	<u>(1,929)</u>
Loss before taxation		(117,847)	(348,422)
Taxation	5	<u>(191)</u>	<u>1,500</u>
Loss before minority interests		(118,038)	(346,922)
Minority interests		<u>974</u>	<u>8,813</u>
Net loss attributable to shareholders		<u>(117,064)</u>	<u>(338,109)</u>
Loss per share - Basic	6	<u>(12.35 cents)</u>	<u>(41.16 cents)</u>

Consolidated statement of changes in equity

For the year ended 31 March 2003

	Share capital HK\$'000	Share premium HK\$'000	Goodwill reserve HK\$'000	Retained profits (deficit) HK\$'000	Total HK\$'000
At 1 April 2001	37,575	486,203	(9,080)	32,581	547,279
Issue of shares	9,368	131,880	—	—	141,248
Expenses incurred in connection with the issue of shares	—	(199)	—	—	(199)
Net loss attributable to shareholders	—	—	—	(338,109)	(338,109)
At 31 March 2002	46,943	617,884	(9,080)	(305,528)	350,219
Issue of shares	500	4,800	—	—	5,300
Expenses incurred in connection with the issue of shares	—	(49)	—	—	(49)
Net loss attributable to shareholders	—	—	—	(117,064)	(117,064)
At 31 March 2003	<u>47,443</u>	<u>622,635</u>	<u>(9,080)</u>	<u>(422,592)</u>	<u>238,406</u>
Attributable to					
- the Company and subsidiaries	47,443	622,635	(9,080)	(408,965)	252,033
- associates	—	—	—	(4,098)	(4,098)
- jointly controlled entities	—	—	—	(9,529)	(9,529)
At 31 March 2003	<u>47,443</u>	<u>622,635</u>	<u>(9,080)</u>	<u>(422,592)</u>	<u>238,406</u>

Notes:

1. Basis of preparation

The financial statements 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 (“HKSA”). They have been prepared under the historical cost convention, as modified for the revaluation of other investments.

In the current year, the Group has adopted for the first time the following new or revised Statements of Standard Accounting Practice (“SSAP”) issued by the HKSA:

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

The adoption of these new or revised SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement as well as additional disclosures. These changes have not had any significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment was required.

2. **Business and geographical segments**

Business segments

For management purposes, the Group's operations are organised into three operating divisions namely software development, investments and other operations. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Software development	—	software development, provision of software maintenance services and the sales of computer hardware and software
Investments	—	investments in securities excluding investments in associates and jointly controlled entities
Other operations	—	magazine publishing, provision of customer relationship management services, provision of computer platform for educational purposes and operation of a software park

Business segments for the year are as follows:

	2003		2002	
	Turnover HK\$'000	Results HK\$'000	Turnover HK\$'000	Results HK\$'000
Software development	27,899	(69,470)	46,849	(89,722)
Investments	—	(13,991)	—	(112,249)
Other operations	<u>71</u>	<u>(4,996)</u>	<u>626</u>	<u>(122,263)</u>
	<u>27,970</u>	<u>(88,457)</u>	<u>47,475</u>	<u>(324,234)</u>
Central administrative expenses		<u>(17,052)</u>		<u>(17,874)</u>
Loss from operations		(105,509)		(342,108)
Finance costs		(1,225)		(4,145)
Share of losses of associates				
- software development		(3,858)		(240)
Share of losses of jointly controlled entities				
- software development		(1,947)		(1,862)
- other operations		<u>(5,308)</u>		<u>(67)</u>
Loss before taxation		(117,847)		(348,422)
Taxation		<u>(191)</u>		<u>1,500</u>
Loss before minority interests		(118,038)		(346,922)
Minority interests		<u>974</u>		<u>8,813</u>
Net loss attributable to shareholders		<u>(117,064)</u>		<u>(338,109)</u>

Geographical segments

The Group's operations are mainly situated in Hong Kong and Mainland China (the "PRC"). The operations in United States of America became inactive during the year. The following table provides an analysis of the Group's geographical segment information:

	Turnover	
	2003 HK\$'000	2002 HK\$'000
PRC	24,464	31,806
Hong Kong	3,506	15,581
United States of America	<u>—</u>	<u>88</u>
	<u>27,970</u>	<u>47,475</u>

3. Loss from operations

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Directors' remuneration excluding fees	5,528	6,793
Other staff's retirement benefits scheme contributions	317	587
Other staff costs	<u>18,777</u>	<u>26,483</u>
	24,622	33,863
Less: Staff costs capitalised in product development costs	<u>(3,452)</u>	<u>(1,323)</u>
	<u>21,170</u>	<u>32,540</u>
Depreciation and amortisation of property, plant and equipment		
- owned by the Group	11,383	11,448
- held under a finance lease	<u>86</u>	<u>87</u>
	11,469	11,535
Less: Depreciation and amortisation capitalised in product development costs	<u>(998)</u>	<u>(542)</u>
	10,471	10,993
Amortisation of goodwill	—	2,343
Amortisation of product development costs	<u>1,736</u>	<u>4,088</u>
	<u>12,207</u>	<u>17,424</u>
Operating lease rentals in respect of land and buildings	1,097	2,602
Less: Operating lease rentals capitalised in product development costs	<u>(307)</u>	<u>(383)</u>
	<u>790</u>	<u>2,219</u>
Allowance for bad and doubtful debts	5,209	29,964
Auditors' remuneration		
- current year	1,077	1,061
- underprovision in prior year	434	488
Loss on disposal of property, plant and equipment	15	321
and after crediting:		
Dividend income from unlisted investment securities	120	144
Gain on disposal of investment securities	—	67
Interest income	<u>1,832</u>	<u>5,811</u>

4. Finance costs

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Interest on		
- a finance lease	(26)	(33)
- bank and other borrowings wholly repayable within five years	(1,199)	(2,327)
- convertible note	<u>—</u>	<u>(1,785)</u>
	<u>(1,225)</u>	<u>(4,145)</u>

5. Taxation

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Underprovision of Hong Kong Profits Tax	(48)	—
PRC income tax	(143)	—
Deferred taxation	<u>—</u>	<u>1,500</u>
	<u>(191)</u>	<u>1,500</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the year.

Pursuant to the relevant laws and regulations in the PRC, the subsidiary in Guangzhou is entitled to exemption from PRC income tax for the year ended 31 December 2001 and entitled to a 50% relief for the three years ending 31 December 2004 while the subsidiary in Beijing is entitled to exemption from PRC income tax for the two years ending 31 December 2003 and entitled to a 50% relief for the three years ending 31 December 2006.

6. Loss per share

The calculation of the basic loss per share is based on the net loss attributable to shareholders of HK\$117,064,000 (2002: HK\$338,109,000) and the weighted average number of 947,787,010 (2002: 821,387,044) shares in issue during the year.

No diluted loss per share has been presented as the exercise price of the Company's share options was higher than the average market price of the Company's shares during the year.

7. Dividend

No dividends had been paid or declared by the Company during the year (2002: Nil).

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CHAIRMAN'S STATEMENT

The year under review was the most difficult year experienced by the Group since its listing on the GEM board of Hong Kong. In line with the circumstances, we have thoroughly rationalized and consolidated our operation, the result of which has met our expectation.

Selection of key affiliates

During the year, a comprehensive review was conducted on our numerous affiliates. On that basis, we had chosen several quality affiliates to operate with synergy on several important aspects.

We refer to, specifically, the commencement of Phase II construction works at the Zhuhai Southern Software Park, a national software development base of the PRC, and the Park's promotion programme for investment; the successful listing of KanHan Technologies on the GEM board of Hong Kong; and the preparatory efforts aimed at expediting the listing-readiness of Ningxia Educational Information Technology Company Limited and West China Electronic Business Company Limited.

Enhancing business network

During the year we have conducted in-depth contacts with a wide range of business partners during the year, and have established a relatively improved business network.

The network included the following entities: Hong Kong Tourism Board, ITSD, CEPREI (Headquarters) Laboratory in the PRC, Huawei Technology Company Limited, Emerson Network Power Company, Guangzhou Press and Publishing Information Centre, Guangzhou Gas Company, Guangdong Province Information Centre, Beijing Sports Bureau, China Mobile Beijing Branch, Motorola and etc.

Standardisation of the consolidated platform

We made creative trials on the rather complicated software development process in the year, and completed an operation standard for the Group on the bases of such foundation. The standard will soon be implemented.

The standard is another major achievement of the Group following the completion of the first version of Timeless Consolidation Platform (TCP V1) about a year ago. When the two systems are being operated on a trial basis at the same time, there will be concrete contributions in costs saving for the Group's development activities and reduction in our duplicated efforts in software development.

Qualification advancement

During the year, we carried out a detailed and comprehensive analysis on our technology development. Building on such ground, we began the effective integration of the Timeless Consolidation Platform with market applications.

In this respect, the following significant achievements were obtained:

- (1) the Timeless Consolidation Platform obtained for the first time the software testing certificate issued by a state level assessment centre, and was awarded general excellency by having "excellent qualities in nine categories" including reliability, easy to use, transferability and etc.;
- (2) Timeless Software (Guangzhou) Limited received the Second Class qualification for computer information system integration;
- (3) the Group completed the ISO9001 accreditation.

These qualifications are standards recognized internationally, and will form the substance for our qualifications in the international application market.

Such recognition will be of great value in the market.

Conclusion

Whether the rationalization and consolidation we had undergone in the year will be effective will largely depend on whether they could bring about improvement in our cash flow. Presently, fundamental changes have yet to take place. Such issue, however, is critically dependent upon the acceptance by the market of a unique technology company like the Group, and the recognition of our aggressive strategies in the PRC.

It is perfectly clear to us that the current negative sentiment in the market toward technology companies is irrational, just as the exuberance toward them was irrational in the years just past. As a company, we have experienced a market which looked on us with exuberant expectation and we are experiencing one which now looks at us with utter diffidence.

These rare but valuable experiences have thus given us strength and confidence to expect for a recovery that is bound to come our way, and we are confident that even a strong rebound may not be such an atypical expectation after all.

REVIEW OF OPERATIONS

Results for the year ended 31 March 2003

The Directors continued to take a conservative approach for accounting purposes. A stringent view on recognizing revenue was still being adopted during the year especially for contracts of relatively longer term in nature in Mainland China.

The loss for the year ended 31 March 2003 was approximately HK\$117.1 million compared to a loss of approximately HK\$338.1 million in previous year. The decrease in loss for the year is mainly due to the smaller amount of write-down of assets and the successful reduction of staff costs and other operating expenses during the year. The EBITDA for the year ended 31 March 2003 is a loss of HK\$24.6 million compared to a loss of HK\$50.8 million in previous year.

Liquidity and financial resources

The Group generally financed its operations and investing activities with internally generated cash flows and loan from a bank.

As at 31 March 2003, the Group had bank balances and cash of approximately HK\$28 million. During the year, the Group's pledged deposit of HK\$30 million was released from a bank and the Group utilized approximately HK\$27 million in investing activities and HK\$15 million in repaying the bank loan.

As at 31 March 2003, the Group had a bank loan of HK\$30 million and obligations under a finance lease of HK\$0.2 million. The bank loan is an installment loan and will be fully repaid in 2006. The following is the maturity profile of the Group's bank loan as of 31 March 2003:

Within one year	33.3%
In the 2nd year	33.3%
In the 3rd year	<u>33.4%</u>
	<u>100.0%</u>

Gearing ratio

The gearing ratio of the Group, which is calculated as the ratio of total borrowings to shareholders' funds, was 12.7% compared to 12.9% as at 31 March 2002.

Charge on the Group's assets

As at 31 March 2003, the Group's headquarters at 79/F The Center, 99 Queen's Road Central, Hong Kong was pledged to a bank for a loan of HK\$30 million as mentioned in the previous paragraph. A bank deposit of HK\$5 million (31 March 2002: HK\$5 million) was also pledged to a bank for banking facilities totaling HK\$10 million (31 March 2002: HK\$15 million). The Group's pledged deposit of HK\$30 million at 31 March 2002 was released from a bank during the year.

Capital structure

During the year, the Company issued 10,000,000 new ordinary shares at a consideration of HK\$5,300,000 to KDS China Limited, an independent private investor.

Segmental information

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. The Group reports its businesses in three business segments namely software development, investments and other operations, and in three geographical segments namely Hong Kong, Mainland China and United States of America.

In respect of business segments, the Group continues to focus on software development. Activity under investments segment decreased in view of the adverse market conditions.

In respect of geographical segments, there was a change during the year. Turnover generated from Mainland China represents approximately 87% of the total turnover of the Group during the year compared to approximately 67% in previous year.

Order book and prospects for new business

Our contracts on hand amounted to over HK\$700 million. Please refer to Chairman's Statement for the prospects of the Group.

Material acquisitions and disposal of subsidiaries and affiliated companies

There was no disposal or acquisition of subsidiaries and affiliated companies during the year.

Future plans for material investments

The Group does not have any plan for material investments in the near future.

Exposure to exchange risks

Since the Group's borrowings and its source of income are primarily denominated in Hong Kong dollars, Renminbi and United States dollars, the exposure to foreign exchange rate fluctuations is minimal.

Contingent liabilities

As at 31 March 2003, the Company has given corporate guarantees of HK\$15 million to a bank to secure credit facilities granted to its subsidiaries. As at 31 March 2003, none of these credit facilities were utilized by the subsidiaries.

Employee information

As at 31 March 2003, the Group employed a total staff of 108. Staff remuneration is reviewed by the Group from time to time and increments are granted normally annually or by special adjustment depending on length of service and performance when warranted. In addition to salaries, the Group provides staff benefits including medical insurance and provident fund. Share options and bonuses are also available to employees of the Group at the discretion of the Directors and depending upon the financial performance of the Group.

BOARD PRACTICES AND PROCEDURES

During the year, the Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange.

On behalf of the Board
Cheng Kin Kwan
Chairman

Hong Kong, 17 June 2003

This announcement will remain on the GEM website (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).