



TIMELESS SOFTWARE LIMITED
(incorporated in Hong Kong with limited liability)

RESULTS ANNOUNCEMENT
For the quarter ended 30 September 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.

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.

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 three and six months ended 30 September 2003 together with the comparative unaudited figures for the corresponding period in 2002 as follows:

Condensed consolidated income statements

For the three and six months ended 30 September 2003

		(Unaudited) Three months ended 30 September		(Unaudited) Six months ended 30 September	
	Notes	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	3	663	9,158	6,218	13,943
Other operating income		190	581	433	1,198
Cost of computer software and hardware sold		(117)	(2,822)	(176)	(5,514)
Staff costs		(3,879)	(5,014)	(8,135)	(10,981)
Depreciation and amortisation		(3,182)	(2,926)	(6,648)	(5,976)
Other operating expenses		(2,662)	(6,340)	(9,394)	(9,580)
Gain (loss) on disposal of listed investment securities		5,944	(1,108)	5,944	(1,108)
Write back/impairment in value of investment securities		—	318	—	(2,942)
Impairment in value of land and buildings		—	(50,000)	—	(50,000)
Impairment in value of product development costs		—	(2,171)	—	(2,171)
Impairment in value of other investments		—	(1,404)	—	(1,404)
Allowance for deposit made for the investment in an associate		—	—	—	(4,107)
Operating loss		(3,043)	(61,728)	(11,758)	(78,642)
Finance costs		(155)	(291)	(377)	(646)
Share of results of associates		(19)	143	(144)	(3,497)
Share of results of jointly controlled entities		(195)	(182)	117	(1,569)
Loss before taxation		(3,412)	(62,058)	(12,162)	(84,354)
Taxation	4	3,995	(185)	3,995	(185)
Profit (loss) before minority interests		583	(62,243)	(8,167)	(84,539)
Minority interests		1	380	(2)	482
Net profit (loss) attributable to shareholders		<u>584</u>	<u>(61,863)</u>	<u>(8,169)</u>	<u>(84,057)</u>
Earnings (loss) per share	6				
— Basic		<u>0.06 cents</u>	<u>(6.52) cents</u>	<u>(0.86) cents</u>	<u>(8.88) cents</u>

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2003

	(Unaudited) Share capital HK\$'000	(Unaudited) Share premium HK\$'000	(Unaudited) Goodwill Reserve HK\$'000	(Unaudited) Deficit HK\$'000	(Unaudited) Total HK\$'000
At 1 April 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	<u>—</u>	<u>—</u>	<u>—</u>	<u>(84,057)</u>	<u>(84,057)</u>
At 30 September 2002	<u>47,443</u>	<u>622,635</u>	<u>(9,080)</u>	<u>(389,585)</u>	<u>271,413</u>
At 1 April 2003	47,443	622,635	(9,080)	(422,592)	238,406
Issue of shares	1,843	7,005	—	—	8,848
Expenses incurred in connection with the issue of shares	—	(357)	—	—	(357)
Net loss attributable to shareholders	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,169)</u>	<u>(8,169)</u>
At 30 September 2003	<u>49,286</u>	<u>629,283</u>	<u>(9,080)</u>	<u>(430,761)</u>	<u>238,728</u>

Notes to the condensed consolidated financial statements

1. Basis of preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) and the Statement of Standard Accounting Practice (“SSAP”) No.25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

2. Principal accounting policies

The condensed consolidated financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2003 except as described below.

In the current period, the Group has adopted SSAP12 (Revised) “Accounting for income taxes” (“SSAP12 (Revised)”), for the first time, issued by the HKSA. SSAP12 (Revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements which have been adopted in these condensed consolidated financial statements.

SSAP12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. The adoption of SSAP12 (Revised) has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment was required.

3. **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.

Business segments for the period are as follows:

	Three months ended		Six months ended	
	30 September		30 September	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
Software development	661	9,157	6,214	13,879
Other operations	<u>2</u>	<u>1</u>	<u>4</u>	<u>64</u>
	<u>663</u>	<u>9,158</u>	<u>6,218</u>	<u>13,943</u>
Results				
Software development	(6,803)	(53,514)	(13,369)	(58,782)
Investments	5,944	(2,193)	5,944	(9,558)
Other operations	<u>(267)</u>	<u>192</u>	<u>(539)</u>	<u>(848)</u>
	(1,126)	(55,515)	(7,964)	(69,188)
Central administrative expenses	<u>(1,917)</u>	<u>(6,213)</u>	<u>(3,794)</u>	<u>(9,454)</u>
Operating loss	(3,043)	(61,728)	(11,758)	(78,642)
Finance costs	(155)	(291)	(377)	(646)
Share of results of associates	(19)	143	(144)	(3,497)
Share of results of jointly controlled entities				
— software development	(633)	(189)	(276)	(1,742)
— other operations	<u>438</u>	<u>7</u>	<u>393</u>	<u>173</u>
Loss before taxation	(3,412)	(62,058)	(12,162)	(84,354)
Taxation	<u>3,995</u>	<u>(185)</u>	<u>3,995</u>	<u>(185)</u>
Profit (loss) before minority interests	583	(62,243)	(8,167)	(84,539)
Minority interests	<u>1</u>	<u>380</u>	<u>(2)</u>	<u>482</u>
Net profit (loss) attributable to shareholders	<u>584</u>	<u>(61,863)</u>	<u>(8,169)</u>	<u>(84,057)</u>

Geographical segments for the period are as follows:

	Three months ended		Six months ended	
	30 September		30 September	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover				
Mainland China (the "PRC")	360	8,243	691	12,164
Hong Kong	<u>303</u>	<u>915</u>	<u>5,527</u>	<u>1,779</u>
	<u>663</u>	<u>9,158</u>	<u>6,218</u>	<u>13,943</u>

4. Taxation

	Three months ended		Six months ended	
	30 September		30 September	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Over (under)provision of Hong Kong				
Profits Tax in prior years	3,995	(47)	3,995	(47)
Mainland China income tax	<u>—</u>	<u>(138)</u>	<u>—</u>	<u>(138)</u>
	<u>3,995</u>	<u>(185)</u>	<u>3,995</u>	<u>(185)</u>

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

Pursuant to the relevant laws and regulations in the PRC, the subsidiary in Guangzhou is entitled to a 50% relief of PRC income tax 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.

5. Interim dividend

The Board does not recommend the payment of an interim dividend for the quarter ended 30 September 2003 (2002: Nil).

6. Earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the following data:

	Three months ended 30 September		Six months ended 30 September	
	2003	2002	2003	2002
Net profit (loss) attributable to shareholders	<u>HK\$584,000</u>	<u>HK\$(61,863,000)</u>	<u>HK\$(8,169,000)</u>	<u>HK\$(84,057,000)</u>
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	<u>949,256,220</u>	<u>948,855,503</u>	<u>949,056,957</u>	<u>946,724,355</u>

No diluted earnings (loss) per share for the three and six months ended 30 September 2003 and 30 September 2002 have 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 both periods.

Chairman's Statement

1. Summary

After six loss-making quarters, we recorded a profit of HK\$584,000, compared to a loss of HK\$8.75 million in the previous quarter, and an even greater loss of HK\$62 million in the same quarter of last year.

Although the turnover for this quarter was significantly lower than the same quarter of last year because of the effect of SARS in this quarter, projects relating to software development were by no means fewer in number.

Given the crises all over the world and the prolonged slump of the information technology industry, it is really a Herculean task for the Company to be profitable again. It was the hard-earned result of our determined and persistent efforts to push through with our adjustments and reinforcement for almost two years. The effects of these efforts have been demonstrated by the lowering of development costs, the increase of premium projects and the improvement in cash flow.

2. Adjustments and reinforcement have come to an end at this stage

This quarter is a quarter when the Group has fully and thoroughly completed its adjustments and reinforcement which can be seen as follows:

Adjustments and consolidation have been effected for the many members of the Group, wherever we can, on the basis of whether doing so can generate profit for the Group, so that what should be terminated were terminated, what should be slowed down were slowed down, and what should go ahead had gone ahead. For example, we have successfully assisted in the listing of “KanHan Technologies” on the GEM, and immediately upon its listing, profit was generated. We have rendered strong support to the development of Zhuhai Southern Software Park, a national software base, which has opened before us a promising prospect of profitability.

This has reinforced our structure.

The Group has thoroughly and seriously dealt with customer groups and projects which are of material importance, and has identified core customers and premium projects, such as the Hong Kong Tourism Board, CEPREI (Headquarters) Laboratory and China Mobile Beijing Branch.

This has reinforced our profit base.

We have carried out determined cost-cutting and saving in recurrent expenses, in particular the costs of software development. For example, salaries of the management led by the Chairman had been reduced by more than 20% with efficiency improved. As a result, our fixed expenses have since been within a safe limit.

This has reinforced the sound development of the Company.

We have carried out in-depth and specific adjustments based on the market to the unique Timeless Consolidated Platform of Timeless. For example, we have enhanced the capability of modules for workflow, search engines and website processing, which will lead to the development of platform products over time. Eventually, a series of Timeless platform products derived from the Timeless Consolidated Platform will be available to us, which is why Timeless’ development cost is reducing while the efficiency of development is improving.

This has reinforced our market advantage.

3. Looking forward

This quarter is a quarter when the Timeless Group is poised for a rebound, and in three aspects are we going to prepare for this.

- We prepare to translate our established technology, market and resources in the PRC into the harvesting of profit;
- we prepare to integrate the software development business with the capital market;
- we prepare to transmute the Timeless Consolidated Platform into specific operations and have them commercialized.

Being the first company listed on GEM in Hong Kong, it is highly significant that we look forward to rebounding prior to the fourth anniversary of GEM, when the time is right, the environment is favorable and the people are supporting.

The views about China's development and its eventual domination were first pointed out and have been maintained by Timeless. It is now a dream which has come true. It is true for a pioneer, a balance should be struck between its difficulties and interests. We are working for the interests of Timeless' shareholders, and are duty-bound to do so and do not hesitate in doing so.

Although we are cautiously optimistic, we feel confident of our way ahead.

Review of operations

Results for the six months ended 30 September 2003

The directors continued to take a conservative approach for accounting purposes and a stringent view on recognizing revenue was still being adopted especially for contracts of relatively longer term in nature in Mainland China. The loss for the six months ended 30 September 2003 was approximately HK\$8.2 million compared to a loss of approximately HK\$84 million in the same period in previous year. The significant decrease in the loss for the period is mainly due to the following:-

1. No allowance for deposit made for the investment in an associate and impairment in value of land and buildings, product development costs as well as investment securities were needed in this period;
2. The reduction of staff costs from HK\$11 million to HK\$8.1 million;
3. Profit on disposal of the Group's entire 7% interest in KanHan Technologies Group Limited, a company listed on GEM in Hong Kong, amounting to HK\$5.9 million;
4. Overprovision of prior years' Hong Kong Profits Tax of approximately HK\$4 million as a result of the tax refund received from the Inland Revenue Department in Hong Kong;
5. The better financial performance of associates and jointly controlled entities during this period. The share of losses of associates and jointly controlled entities amounted to approximately HK\$5 million in the same period in previous year was mainly a result of the provision for impairment losses of the shares of the Company held by an associate and a jointly controlled entity and no such provision was needed during this period.

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 30 September 2003, the Group had bank balances and cash (excluding pledged bank deposits) of approximately HK\$30 million compared to approximately HK\$24 million as at 31 March 2003. As at 30 September 2003, the Group had a bank loan of HK\$25 million and obligations under finance lease of HK\$0.3 million. According to the terms of this bank loan, this 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 30 September 2003:

Within one year	40%
In the 2nd year	40%
In the 3rd year	<u>20%</u>
	<u>100%</u>

Subject to the result of an extraordinary general meeting of the Company to be held on 20 November 2003 for the approval of the assignment of the property located at 79/F The Center, 99 Queen's Road Central, Hong Kong from the

Company to Timeless Laboratories Limited (a wholly-owned subsidiary of the Company), a new bank loan of HK\$40 million will replace the existing bank loan. Please refer to the Company's announcement on 23 October 2003 for details of the terms of this new bank loan.

Gearing ratio

The gearing ratio of the Group, which is calculated as the ratio of total borrowings to shareholders' funds, was 10.5% compared to 12.7% as at 31 March 2003.

Charge on the Group's assets

As at 30 September 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\$25 million as mentioned in the previous paragraph. A bank deposit of HK\$5 million (31 March 2003: HK\$5 million) was also pledged to a bank for banking facilities totaling HK\$5 million (31 March 2003: HK\$10 million).

Capital structure

On 30 September 2003, the Company completed a top-up placing of 36,866,000 shares at a price of HK\$0.24 per share. Please refer to the Company's announcements on 17 September 2003 and 30 September 2003 for details of this top-up placing of shares.

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 Mainland China, Hong Kong and United States of America.

In respect of business segments, the Group continues to focus on software development. During the six months ended 30 September 2003, the Group disposed of its entire 7% interest in KanHan Technologies Group Limited, a company listed on GEM in Hong Kong, for a consideration of approximately HK\$6.3 million and recorded a profit of approximately HK\$5.9 million.

In respect of geographical segments, there was a temporary change during the six months ended 30 September 2003. Turnover generated from Mainland China represents approximately 11.1% of the total turnover of the Group

during the period compared to approximately 87.2% during the same period in previous year, as the outbreak of SARS had seriously affected the business and thus the turnover of the Company's principal subsidiaries in Guangzhou and Beijing. As the Group has substantial contracts on hand and its principal operation is in Mainland China, it is expected that the level of activities in Mainland China will increase in future.

Order book and prospects for new business

The amount of orders on hand of the Group was over HK\$700 million as at 30 September 2003. Please refer to the Chairman's statement for description of 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 six months ended 30 September 2003.

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 30 September 2003, the Company has given corporate guarantees of HK\$5 million to a bank to secure credit facilities granted to its subsidiaries. As at 30 September 2003, none of these credit facilities was utilized by the subsidiaries.

Employee information

As at 30 September 2003, the Group employed a total staff of 86. Staff remuneration is reviewed by the Group from time to time and increases 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.

Competing interest

As at 30 September 2003, none of the directors or management shareholder (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in a business which competes or may compete with the business of the Group.

Purchase, sale or redemption of the Company's listed securities

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

Board practices and procedures

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules throughout the period.

On behalf of the Board
Cheng Kin Kwan
Chairman & Chief Executive Officer

Hong Kong, 11 November 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).