



Timeless Software Limited

(incorporated in Hong Kong with limited liability)

(Stock code: 8028)

RESULTS ANNOUNCEMENT

For the quarter ended 30 September 2004

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 2004 together with the comparative unaudited figures for the corresponding period in 2003 as follows:

Condensed consolidated income statements

For the three and six months ended 30 September 2004

	<i>Note</i>	(Unaudited) Three months ended 30 September		(Unaudited) Six months ended 30 September	
		2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	3	1,155	663	1,928	6,218
Other operating income		49	190	187	433
Cost of computer software and hardware sold		—	(117)	—	(176)
Staff costs		(3,327)	(3,879)	(6,724)	(8,135)
Depreciation and amortisation		(3,434)	(3,182)	(6,896)	(6,648)
Other operating expenses		(1,941)	(2,662)	(3,800)	(9,394)
Gain on disposal of listed investment securities		—	5,944	—	5,944
Impairment in value of investment securities		—	—	(129)	—
Loss from operations		(7,498)	(3,043)	(15,434)	(11,758)
Finance costs		(144)	(155)	(291)	(377)
Share of losses of associates		(14,730)	(19)	(15,058)	(144)
Share of results of jointly controlled entities		42	(195)	(3,487)	117
Loss before taxation		(22,330)	(3,412)	(34,270)	(12,162)
Taxation	4	—	3,995	—	3,995
(Loss) profit before minority interests		(22,330)	583	(34,270)	(8,167)
Minority interests		5	1	9	(2)
Net (loss) profit attributable to shareholders		<u>(22,325)</u>	<u>584</u>	<u>(34,261)</u>	<u>(8,169)</u>
(Loss) earnings per share	6	<u>(2.25) cents</u>	<u>0.06 cents</u>	<u>(3.46) cents</u>	<u>(0.86) cents</u>
— Basic					

Condensed consolidated statement of changes in equity

For the six months ended 30 September 2004

	(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 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	—	—	—	(8,169)	(8,169)
At 30 September 2003	<u>49,286</u>	<u>629,283</u>	<u>(9,080)</u>	<u>(430,761)</u>	<u>238,728</u>
At 1 April 2004	49,503	629,932	(9,080)	(460,681)	209,674
Issue of shares	57	158	—	—	215
Expenses incurred in connection with the issue of shares	—	(6)	—	—	(6)
Net loss attributable to shareholders	—	—	—	(34,261)	(34,261)
At 30 September 2004	<u>49,560</u>	<u>630,084</u>	<u>(9,080)</u>	<u>(494,942)</u>	<u>175,622</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 Statement of Standard Accounting Practice No.25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

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 2004.

3. Business and geographical 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 30 September		Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover				
Software development	1,153	661	1,921	6,214
Other operations	<u>2</u>	<u>2</u>	<u>7</u>	<u>4</u>
	<u>1,155</u>	<u>663</u>	<u>1,928</u>	<u>6,218</u>
Results				
Software development	(5,659)	(6,803)	(12,008)	(13,369)
Investments	—	5,944	(86)	5,944
Other operations	<u>(92)</u>	<u>(267)</u>	<u>(265)</u>	<u>(539)</u>
	(5,751)	(1,126)	(12,359)	(7,964)
Central administrative expenses	<u>(1,747)</u>	<u>(1,917)</u>	<u>(3,075)</u>	<u>(3,794)</u>
Loss from operations	(7,498)	(3,043)	(15,434)	(11,758)
Finance costs	(144)	(155)	(291)	(377)
Share of losses of associates	(14,730)	(19)	(15,058)	(144)
Share of results of jointly controlled entities				
— software development	(395)	(633)	(539)	(276)
— other operations	<u>437</u>	<u>438</u>	<u>(2,948)</u>	<u>393</u>
Loss before taxation	(22,330)	(3,412)	(34,270)	(12,162)
Taxation	<u>—</u>	<u>3,995</u>	<u>—</u>	<u>3,995</u>
(Loss) profit before minority interests	(22,330)	583	(34,270)	(8,167)
Minority interests	<u>5</u>	<u>1</u>	<u>9</u>	<u>(2)</u>
Net (loss) profit attributable to shareholders	<u>(22,325)</u>	<u>584</u>	<u>(34,261)</u>	<u>(8,169)</u>

Geographical segments for the period are as follows:

	Three months ended 30 September		Six months ended 30 September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover				
Mainland China (the "PRC")	455	360	699	691
Hong Kong	<u>700</u>	<u>303</u>	<u>1,229</u>	<u>5,527</u>
	<u>1,155</u>	<u>663</u>	<u>1,928</u>	<u>6,218</u>

4. Taxation

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no assessable profit for the period. The credit in 2003 represented overprovision of Hong Kong Profits Tax in prior years.

5. Interim dividend

The Board does not recommend the payment of an interim dividend for the quarter ended 30 September 2004 (2003: Nil).

6. (Loss) earnings per share

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

	Three months ended		Six months ended	
	30 September		30 September	
	2004	2003	2004	2003
Net (loss) profit attributable to shareholders	<u>HK\$(22,325,000)</u>	<u>HK\$584,000</u>	<u>HK\$(34,261,000)</u>	<u>HK\$(8,169,000)</u>
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>991,188,438</u>	<u>949,256,220</u>	<u>991,077,743</u>	<u>949,056,957</u>

No diluted loss per share for the three months and six months ended 30 September 2004 have been presented as the share options granted by the Company are anti-dilutive.

No diluted earnings (loss) per share for the three months and six months ended 30 September 2003 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 that period.

Chairman's Statement

25 November 2004 will mark the fifth anniversary of the listing of Timeless on the Hong Kong GEM Board and the ninth year of the Group since its commencement of business on 1 July 1996. All through these years, we have been a company dedicated to software development and to the pursuit of the routes for such a company to both survive and grow. We have had to endure and overcome formidable hurdles encountered in the course of this pursuit as well as during the phases while our core technologies were being composed; we have had to face many crises, some of which appeared quite unexpectedly; and we have had to live through a few cycles of profit and loss. Simply put, we have been in battle for survival, and for the prospect of future growth.

We have persisted on the construction of a "consolidated platform on five pillars" as our unique model to achieve survival and growth. We have deployed this model in real-life situation so as to find out and correct its many flaws, and to optimize and improvise on its building process. This process has been costly, but on the other hand we have also gained invaluable insight.

At long last, we are able to conclude that as the interconnections between the five pillars, namely the strategy, the location, the talent, the commerce and the technology pillars, of our consolidated platform have now been built up, the latest version of the consolidated platform has been completed.

And at long last, we are able to look forward to the date when the Timeless Consolidated Platform will be introduced to the world, a date originally targeted to be within this year. When the time is suitable, we will inform the market and our shareholders about the specifics of the Timeless Consolidated Platform.

What, actually, is the Timeless Consolidated Platform that is conceived and developed by the Chinese? How can it be translated into profit for our group? What are its unique niches?

All of the above will be detailed and clarified during our announcement and these details will be decisive for the development of Timeless in the future.

Review of operations

Results for the six months ended 30 September 2004

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 2004 was approximately HK\$34.3 million compared to a loss of approximately HK\$8.2 million in the same period in previous year. The increase in the loss for the period is mainly due to the following:-

1. The share of losses of associates of HK\$15.1 million mainly as a result of the provision for impairment losses of the shares of the Company held by two associates during the period;
2. The share of losses of jointly controlled entities of HK\$3.5 million mainly as a result of the one-off adjustment made regarding the construction-in-progress account prior to the completion of Phase II of the Zhuhai Southern Software Park this year;
3. There was a profit on disposal of the Group's entire 7% interest in KanHan Technologies Group Limited amounting to HK\$5.9 million in the same period in previous year; and
4. There was an 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 in the same period 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 30 September 2004, the Group had bank balances and cash (excluding pledged bank deposits) of approximately HK\$26 million compared to approximately HK\$38.8 million as at 31 March 2004.

As at 30 September 2004, the Group had a bank loan of HK\$36.9 million and obligations under finance lease of HK\$0.2 million. According to the terms of this bank loan, this bank loan is an installment loan and will be fully repaid in 2013. The following is the maturity profile of the Group's bank loan as of 30 September 2004:

Within one year	10%
In the 2nd year	10%
In the 3rd to 10th year	<u>80%</u>
	<u>100%</u>

Gearing ratio

The gearing ratio of the Group, which is calculated as the ratio of total borrowings to shareholders' funds, was 21.1% compared to 18.6% as at 31 March 2004.

Charge on the Group's assets

As at 30 September 2004, 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\$36.9 million as mentioned in the previous paragraph. Bank deposits totalling approximately HK\$10.2 million (31 March 2004: HK\$10.2 million) were pledged to banks for banking facilities of HK\$5 million (31 March 2004: HK\$5 million) available to the Group and a loan facility of approximately HK\$4.7 million (31 March 2004: HK\$4.7 million) available to a jointly controlled entity.

Capital structure

A director and certain employees of the Group exercised their share options and as a result 1,130,000 shares of the Company were issued and allotted to them during the six months ended 30 September 2004.

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 two geographical segments namely Mainland China and Hong Kong.

In respect of business segments, the Group continued to focus on software development. In respect of geographical segments, turnover generated from Mainland China increased from 11.1% of the total turnover of the Group in the first half of previous year to 36.3% in this period. As the Group's 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 as at 30 September 2004 was similar to that at 31 March 2004. In respect of those large projects of relatively longer term in nature in Ningxia Province in Mainland China, progress will be made when funding for these projects becomes certain. 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 2004.

Future plans for material investments

The Group has committed to invest in 70% interest in a company established in the People's Republic of China ("Prospective Subsidiary") through acquisition of interest in the Prospective Subsidiary from an independent third party at a consideration of RMB8 million (approximately HK\$7.5 million) and subscription of new shares in the Prospective Subsidiary amounting to RMB6 million (approximately HK\$5.6 million). Upon completion of the afore-mentioned transactions, the Prospective Subsidiary will have a registered capital of RMB20 million (approximately HK\$18.7 million).

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 2004, the Company has given corporate guarantees of HK\$45 million (31 March 2004: HK\$45 million) to banks to secure credit facilities granted to its subsidiaries. As at 30 September 2004, credit facility of HK\$36.9 million (31 March 2004: HK\$38.8 million) was utilized by a subsidiary.

Employee information

As at 30 September 2004, the Group employed a total staff of 58. 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 2004, 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 5.34 to 5.45 of the GEM Listing Rules throughout the period.

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

The Board comprises the following directors:-

Mr. CHENG, Kin Kwan (Executive Director)
Mr. CHUNG, Yiu Fai (Executive Director)
Mr. LAW, Kwai Lam (Executive Director)
Ms. LEUNG, Mei Sheung Eliza (Executive Director)
Mr. PUN, Chung Sang Trevor (Executive Director)
Ms. SO, Mi Ling Winnie (Executive Director)
Ms. WONG, Wai Ping Mandy (Executive Director)
Ms. ZHENG, Ying Yu (Executive Director)
Mr. CHONG, Siu Pui (Independent Non-executive Director)
Mr. NG, Kwok Tung (Independent Non-executive Director)
Ms. TSANG, Wai Chun Marianna (Independent Non-executive Director)

Hong Kong, 10 November 2004

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).