



**Quarterly Report**  
for the quarter ended 30 June 2003

**Q1**

# 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.**

**This Quarterly Report, 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 Quarterly Report 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 Quarterly Report misleading; and (3) all opinions expressed in this Quarterly Report 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 (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 June 2003 together with the comparative unaudited figures for the corresponding period in 2002 as follows:

## Condensed Consolidated Income Statement

For the three months ended 30 June 2003

		<b>(Unaudited)</b>	
		<b>Three months</b>	
		<b>ended 30 June</b>	
		<b>2003</b>	2002
	Notes	<b>HK\$'000</b>	HK\$'000
Turnover		<b>5,555</b>	4,785
Other operating income		<b>243</b>	617
Cost of computer software and hardware sold		<b>(59)</b>	(2,692)
Staff costs		<b>(4,255)</b>	(5,967)
Depreciation and amortisation		<b>(3,466)</b>	(3,050)
Other operating expenses		<b>(6,732)</b>	(3,240)
Impairment in value of investment securities		<b>—</b>	(3,260)
Allowance for deposit made for the investment in an associate		<b>—</b>	(4,107)
		<hr/>	<hr/>
Loss from operations		<b>(8,714)</b>	(16,914)
Finance costs		<b>(223)</b>	(355)
Share of results of associates		<b>(125)</b>	(3,640)
Share of results of jointly controlled entities		<b>312</b>	(1,387)
		<hr/>	<hr/>
Loss before taxation		<b>(8,750)</b>	(22,296)
Taxation	3	<b>—</b>	—
		<hr/>	<hr/>
Loss before minority interests		<b>(8,750)</b>	(22,296)
Minority interests		<b>(3)</b>	102
		<hr/>	<hr/>
Net loss attributable to shareholders		<b>(8,753)</b>	(22,194)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share - Basic	4	<b>(0.92) cents</b>	(2.35) cents
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## Condensed Consolidated Statement of Changes in Equity

For the three months ended 30 June 2003

	(Unaudited) Share capital HK\$'000	(Unaudited) Share premium HK\$'000	(Unaudited) Goodwill reserve HK\$'000	(Unaudited) Retained 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	—	(17)	—	—	(17)
Net loss attributable to shareholders	—	—	—	(22,194)	(22,194)
At 30 June 2002	<u>47,443</u>	<u>622,667</u>	<u>(9,080)</u>	<u>(327,722)</u>	<u>333,308</u>
<b>At 1 April 2003</b>	<b>47,443</b>	<b>622,635</b>	<b>(9,080)</b>	<b>(422,592)</b>	<b>238,406</b>
<b>Net loss attributable to shareholders</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(8,753)</b>	<b>(8,753)</b>
<b>At 30 June 2003</b>	<b><u>47,443</u></b>	<b><u>622,635</u></b>	<b><u>(9,080)</u></b>	<b><u>(431,345)</u></b>	<b><u>229,653</u></b>

## Notes to the Condensed Financial Information

### 1. Basis of preparation

The condensed consolidated financial information have been prepared in accordance with the applicable disclosure 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").

### 2. Principal accounting policies

The condensed consolidated financial information have been prepared under the historical cost convention, as modified for the revaluation of other investments.

During this period, the Group has adopted for the first time the following revised Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants:

SSAP 12 (Revised)	Income taxes
SSAP 34 (Revised)	Employee benefits

The adoption of these revised SSAPs has not had any significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment was required.

### 3. 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.

Pursuant to the relevant laws and regulations in the People's Republic of China ("PRC"), the subsidiary in Guangzhou is 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.

### 4. Loss per share

The calculation of the basic loss per share is based on the net loss attributable to shareholders for the three months ended 30 June 2003 of HK\$8,753,000 (2002: HK\$22,194,000) and the weighted average number of 948,855,503 (2002: 944,569,789) shares in issue during the period.

No diluted loss per share for the three months ended 30 June 2003 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 period.

## Interim dividend

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

## Business Review and Outlook

This was a high season of SARS. Many business activities in Hong Kong, Guangzhou and Beijing, our bases of operation and the most seriously infected areas, were postponed or even halted as a result. The loss for this quarter was HK\$8.8 million compared to a loss of HK\$22.2 million during the same quarter in previous year. During this quarter, 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 decrease in the loss for the quarter is mainly due to the following:

1. No impairment in value of investment securities and allowance for deposit made for investment in an associate is needed in this quarter;
2. The better financial performance of associates and jointly controlled entities during this quarter. The share of losses of associates and jointly controlled entities amounted to HK\$5 million in the same quarter 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 is needed during this quarter; and
3. The reduction of staff costs from HK\$6 million to HK\$4.3 million.

The EBITDA for the quarter ended 30 June 2003 is a loss of HK\$5.5 million compared to a loss of HK\$7 million during the same quarter in previous year.

We still managed to further intensify our reorganization and consolidation. The effect of reorganization and consolidation can be achieved through a reduction in development costs, an increase in the number of premium projects and an improvement in cash flow. We have gained different extents of progress in these areas.

We carry out reorganization and consolidation to prepare and strive for a persistent and real turnaround of the Group. Opportunities have arisen for us to capture in this regard.

We hope the day will come soon when Timeless and its shareholders can enjoy a real return, and we are striving for that day.

## Directors' and Chief Executives' Interests in Securities

As at 30 June 2003, the interests or short positions of the directors in the shares, underlying shares or debentures of the Company which had been notified to the Company and the Exchange pursuant to Part XV of the Securities and Futures Ordinance ("SFO") (including interests or short positions in which they are deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules were as follows:

### (a) Ordinary shares of the Company

Name of director	Number of shares held and nature of interest			Total percentage of shareholding
	Personal Interest	Corporate interest	Total number of shares	
Cheng Kin Kwan	104,660,000	—	104,660,000	11.03%
Law Kwai Lam	10,000,000	28,325,000*	38,325,000	4.04%
Chung Yiu Fai	2,420,000	—	2,420,000	0.26%
Leung Mei Sheung, Eliza	1,030,000	—	1,030,000	0.11%
Wong Wai Ping, Mandy	1,680,000	—	1,680,000	0.18%
Zheng Ying Yu	200,000	—	200,000	0.02%

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

## Directors' and Chief Executives' Interests in Securities (Continued)

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

Particulars of the directors' interests in share options to subscribe for shares in the Company pursuant to the Company's 2000 Share Option Scheme were as follows:

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options at 1 April 2003 and 30 June 2003
Cheng Kin Kwan	6/3/2001	6/3/2002 - 5/3/2005	0.630	1,500,000
	27/4/2001	27/4/2002 - 26/4/2005	0.818	500,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	800,000
Law Kwai Lam	22/4/2002	22/4/2003 - 21/4/2006	0.455	650,000
	6/3/2001	6/3/2002 - 5/3/2005	0.630	800,000
	27/4/2001	27/4/2002 - 26/4/2005	0.818	200,000
Chung Yiu Fai	3/10/2001	3/10/2002 - 2/10/2005	0.445	200,000
	6/3/2001	6/3/2002 - 5/3/2005	0.630	1,000,000
	27/4/2001	27/4/2002 - 26/4/2005	0.818	200,000
Leung Mei Sheung, Eliza	3/10/2001	3/10/2002 - 2/10/2005	0.445	500,000
	22/4/2002	22/4/2003 - 21/4/2006	0.455	300,000
	6/3/2001	6/3/2002 - 5/3/2005	0.630	1,000,000
So Mi Ling, Winnie	27/4/2001	27/4/2002 - 26/4/2005	0.818	200,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	500,000
	6/3/2001	6/3/2002 - 5/3/2005	0.630	300,000
Wong Wai Ping, Mandy	27/4/2001	27/4/2002 - 26/4/2005	0.818	200,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	500,000
	6/3/2001	6/3/2002 - 5/3/2005	0.630	800,000
Zhang Min	27/4/2001	27/4/2002 - 26/4/2005	0.818	100,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	60,000
Zheng Ying Yu	22/4/2002	22/4/2003 - 21/4/2006	0.455	590,000
	27/4/2001	27/4/2002 - 26/4/2005	0.818	100,000
	3/10/2001	3/10/2002 - 2/10/2005	0.445	300,000
	22/4/2002	22/4/2003 - 21/4/2006	0.455	300,000

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held by certain directors in trust for the Group, at 30 June 2003, none of the directors or chief executives or their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which fall to be notified to the Company and the Exchange pursuant to Part XV of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and the Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules.



## Substantial Shareholders

As at 30 June 2003, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (not being a director or the chief executive of the Company) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company:

<b>Name of shareholder</b>	<b>Number of ordinary shares held</b>	<b>Percentage of shareholding</b>
Educational Information Technology (HK) Company Limited*	108,057,374	11.39%
Crimson Asia Capital Limited, L.P.	107,273,503	11.31%

\* These shares were held in trust for 寧夏教育信息技術股份有限公司 (Ningxia Educational Information Technology Company Limited), a company in which the Group is acquiring a 25.03% equity interest.

Save as disclosed above, at 30 June 2003, the Company had not been notified of any other interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Exchange under Part XV of the SFO.

## Competing Interest

As at 30 June 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.

## Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited quarterly report for the quarter ended 30 June 2003.

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

Hong Kong, 11 August 2003