



TIMELESS SOFTWARE LTD.



## Quarterly Report

for the quarter ended 30 June 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.

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

## Condensed Consolidated Income Statement

For the three months ended 30 June 2004

|   |       | <b>(Unaudited)</b>        |              |
|---|-------|---------------------------|--------------|
|   |       | <b>Three months ended</b> |              |
|   |       | <b>30 June</b>            |              |
|   | Notes | <b>2004</b>               | 2003         |
|   |       | <b>HK\$'000</b>           | HK\$'000     |
| Turnover  |       | <b>773</b>                | 5,555        |
| Other operating income                          |       | <b>138</b>                | 243          |
| Cost of computer software and hardware sold     |       | <b>—</b>                  | (59)         |
| Staff costs                                     |       | <b>(3,397)</b>            | (4,255)      |
| Depreciation and amortization                   |       | <b>(3,462)</b>            | (3,466)      |
| Other operating expenses                        |       | <b>(1,859)</b>            | (6,732)      |
| Impairment in value of investment securities    |       | <b>(129)</b>              | —            |
|   |       | <hr/>                     | <hr/>        |
| Loss from operations                            |       | <b>(7,936)</b>            | (8,714)      |
| Finance costs                                   |       | <b>(147)</b>              | (223)        |
| Share of results of associates                  |       | <b>(328)</b>              | (125)        |
| Share of results of jointly controlled entities |       | <b>(3,529)</b>            | 312          |
|   |       | <hr/>                     | <hr/>        |
| Loss before taxation                            |       | <b>(11,940)</b>           | (8,750)      |
| Taxation  | 3     | <b>—</b>                  | —            |
|   |       | <hr/>                     | <hr/>        |
| Loss before minority interests                  |       | <b>(11,940)</b>           | (8,750)      |
| Minority interests                              |       | <b>4</b>                  | (3)          |
|   |       | <hr/>                     | <hr/>        |
| Net loss attributable to shareholders           |       | <b>(11,936)</b>           | (8,753)      |
|   |       | <hr/> <hr/>               | <hr/> <hr/>  |
| Loss per share - Basic                          | 4     | <b>(1.21) cents</b>       | (0.92) cents |
|   |       | <hr/> <hr/>               | <hr/> <hr/>  |

## Condensed Consolidated Statement of Changes in Equity

For the three months ended 30 June 2004

|   | (Unaudited)<br>Share<br>capital<br>HK\$'000 | (Unaudited)<br>Share<br>premium<br>HK\$'000 | (Unaudited)<br>Goodwill<br>reserve<br>HK\$'000 | (Unaudited)<br>Deficit<br>HK\$'000 | (Unaudited)<br>Total<br>HK\$'000 |
|---|---|---|--|------------------------------------|----------------------------------|
| At 1 April 2003   | 47,443                                      | 622,635                                     | (9,080)  | (422,592)                          | 238,406                          |
| Net loss attributable to shareholders                       | —   | —   | —  | (8,753)                            | (8,753)                          |
| At 30 June 2003   | <u>47,443</u>                               | <u>622,635</u>                              | <u>(9,080)</u>                                 | <u>(431,345)</u>                   | <u>229,653</u>                   |
| <b>At 1 April 2004</b>                                      | <b>49,503</b>                               | <b>629,932</b>                              | <b>(9,080)</b>                                 | <b>(460,681)</b>                   | <b>209,674</b>                   |
| Issue of shares   | 56  | 158   | —  | —                                  | 214                              |
| Expenses incurred in connection<br>with the issue of shares | —   | (1)   | —  | —                                  | (1)                              |
| Net loss attributable<br>to shareholders                    | —   | —   | —  | (11,936)                           | (11,936)                         |
| <b>At 30 June 2004</b>                                      | <b><u>49,559</u></b>                        | <b><u>630,089</u></b>                       | <b><u>(9,080)</u></b>                          | <b><u>(472,617)</u></b>            | <b><u>197,951</u></b>            |

## Notes to the Condensed Consolidated 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. The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements for the year ended 31 March 2004.

### 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 PRC, the subsidiary in Guangzhou is entitled to a 50% tax relief for the three years ending 31 December 2004. The subsidiary in Beijing is entitled to exemption from PRC income tax for the two years commencing the first profit-making year and entitled to a 50% relief for the three years thereafter. The subsidiary in Beijing has not made any profit in any year since its establishment.

### 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 2004 of HK\$11,936,000 (2003: HK\$8,753,000) and the weighted average number of 990,965,833 (2003: 948,855,503) shares in issue during the period.

No diluted loss per share for the three months ended 30 June 2004 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 2004 (2003: Nil).

## Business Review and Outlook

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 loss for this quarter was HK\$11.9 million compared to a loss of HK\$8.8 million during the same quarter in previous year. The increase in the loss for the quarter was mainly due to 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 expected completion of Phase II of the Zhuhai Southern Software Park later this year.

The loss from operations was reduced from HK\$8.7 million in the same quarter in previous year to HK\$7.9 million in this quarter. The reduction in the loss from operations was due to the successful implementation of cost reduction measures and the avoidance of projects which were of low profit margin. The EBITDA was slightly improved from a loss of HK\$5.5 million for the quarter ended 30 June 2003 to a loss of HK\$4.3 million for this quarter.

As stated in the Chairman's Statement in our 2004 Annual Report, "We will seek to announce to the world the latest version of the "Timeless Consolidated Platform" in due course and to build it into a brand." Our accomplishment for this quarter has expedited the progress in this aspect. We will strive for such important announcement that lucidly describes our business model to be made within this year. To be specific, we are aiming at 25 November 2004: the fifth anniversary of the Company being the first company that listed on the Hong Kong GEM Board. To achieve such target, we have to hasten our tasks as follows:

1. To contend major projects and their completion
2. The software development and connectivity of major projects
3. The connectivity between internal system technologies and significant application technologies.

The better we excel our tasks, the further achievements our announced version of Timeless Consolidated Platform will attain.

## Directors' and Chief Executives' Interests in Securities

As at 30 June 2004, 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 Rule 5.46 of the GEM Listing Rules were as follows:

### (a) Ordinary shares of the Company

#### Long positions

| Name of director        | Number of ordinary shares held |                 |                    | Total number of shares | Percentage of shareholding |
|-------------------------|--------------------------------|-----------------|--------------------|------------------------|----------------------------|
|                         | Personal Interest              | Family interest | Corporate interest |                        |                            |
| Cheng Kin Kwan          | 109,000,000                    | —               | —                  | 109,000,000            | 11.00%                     |
| Law Kwai Lam            | 10,000,000                     | —               | 28,325,000*        | 38,325,000             | 3.87%                      |
| Chung Yiu Fai           | 2,970,000                      | —               | —                  | 2,970,000              | 0.30%                      |
| Leung Mei Sheung, Eliza | 1,030,000                      | —               | —                  | 1,030,000              | 0.10%                      |
| Wong Wai Ping, Mandy    | 1,680,000                      | —               | —                  | 1,680,000              | 0.17%                      |
| Zheng Ying Yu           | 200,000                        | —               | —                  | 200,000                | 0.02%                      |
| Pun Chung Sang, Trevor  | —                              | 250,000         | —                  | 250,000                | 0.03%                      |

\* These shares were held by a private company which is wholly-owned 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 and 2003 Share Option Scheme were as follows:

#### Long positions

| Name of director           | Date of grant | Exercisable period    | Exercise price per share<br>HK\$ | Number of share options at 1 Apr 2004 and 30 Jun 2004 |
|----------------------------|---------------|-----------------------|----------------------------------|---|
| 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   |
|                            | 22/4/2002     | 22/4/2003 - 21/4/2006 | 0.455                            | 650,000   |
|                            | 5/9/2003      | 5/9/2003 - 4/9/2013   | 0.228                            | 6,960,000   |
|                            | 8/12/2003     | 8/12/2003 - 7/12/2013 | 0.213                            | 800,000   |
|                            | 25/2/2004     | 25/2/2004 - 24/2/2014 | 0.190                            | 7,700,000   |
| Law Kwai Lam               | 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   |
|                            | 3/10/2001     | 3/10/2002 - 2/10/2005 | 0.445                            | 200,000   |
|                            | 5/9/2003      | 5/9/2003 - 4/9/2013   | 0.228                            | 2,000,000   |
|                            | 9/1/2004      | 9/1/2004 - 8/1/2014   | 0.190                            | 1,000,000   |
| Chung Yiu Fai              | 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   |
|                            | 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   |
|                            | 5/9/2003      | 5/9/2003 - 4/9/2013   | 0.228                            | 5,500,000   |
|                            | 8/12/2003     | 8/12/2003 - 7/12/2013 | 0.213                            | 400,000   |
|                            | 25/2/2004     | 25/2/2004 - 24/2/2014 | 0.190                            | 6,450,000*  |
| Leung Mei Sheung,<br>Eliza | 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   |
|                            | 3/10/2001     | 3/10/2002 - 2/10/2005 | 0.445                            | 500,000   |
|                            | 5/9/2003      | 5/9/2003 - 4/9/2013   | 0.228                            | 5,500,000   |
|                            | 8/12/2003     | 8/12/2003 - 7/12/2013 | 0.213                            | 4,300,000   |
|                            | 25/2/2004     | 25/2/2004 - 24/2/2014 | 0.190                            | 6,000,000   |
| So Mi Ling, Winnie         | 6/3/2001      | 6/3/2002 - 5/3/2005   | 0.630                            | 300,000   |
|                            | 27/4/2001     | 27/4/2002 - 26/4/2005 | 0.818                            | 200,000   |
|                            | 3/10/2001     | 3/10/2002 - 2/10/2005 | 0.445                            | 200,000   |
|                            | 5/9/2003      | 5/9/2003 - 4/9/2013   | 0.228                            | 2,000,000   |
|                            | 9/1/2004      | 9/1/2004 - 8/1/2014   | 0.190                            | 1,000,000   |



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

| Name of director          | Date of grant | Exercisable period      | Exercise price per share<br>HK\$ | Number of share options at 1 Apr 2004 and 30 Jun 2004 |
|---------------------------|---------------|-------------------------|----------------------------------|---|
| Wong Wai Ping,<br>Mandy   | 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   |
|                           | 3/10/2001     | 3/10/2002 - 2/10/2005   | 0.445                            | 500,000   |
|                           | 5/9/2003      | 5/9/2003 - 4/9/2013     | 0.228                            | 5,500,000   |
|                           | 8/12/2003     | 8/12/2003 - 7/12/2013   | 0.213                            | 400,000   |
|                           | 25/2/2004     | 25/2/2004 - 24/2/2014   | 0.190                            | 6,000,000   |
| Zheng Ying Yu             | 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   |
|                           | 5/9/2003      | 5/9/2003 - 4/9/2013     | 0.228                            | 2,000,000   |
|                           | 8/12/2003     | 8/12/2003 - 7/12/2013   | 0.213                            | 400,000   |
|                           | 9/1/2004      | 9/1/2004 - 8/1/2014     | 0.190                            | 7,000,000   |
| Pun Chung Sang,<br>Trevor | 6/3/2001      | 6/3/2002 - 5/3/2005     | 0.630                            | 200,000   |
|                           | 9/4/2001      | 9/4/2002 - 8/4/2005     | 0.592                            | 100,000   |
|                           | 27/4/2001     | 27/4/2002 - 26/4/2005   | 0.818                            | 100,000   |
|                           | 3/10/2001     | 3/10/2002 - 2/10/2005   | 0.445                            | 200,000   |
|                           | 5/9/2003      | 5/9/2003 - 4/9/2013     | 0.228                            | 3,500,000   |
|                           | 26/11/2003    | 26/11/2003 - 25/11/2013 | 0.230                            | 400,000   |
|                           | 9/1/2004      | 9/1/2004 - 8/1/2014     | 0.190                            | 3,000,000   |

\* During the three months ended 30 June 2004, Mr. Chung Yiu Fai exercised 550,000 share options at an exercise price of HK\$0.19 per share. The number of such category of share option as at 1 April 2004 and 30 June 2004 was 7,000,000 and 6,450,000 respectively.

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 2004, none of the directors or chief executive 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 Rule 5.46 of the GEM Listing Rules.

## Shareholders' Interests in Securities

As at 30 June 2004, 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:

| Name of shareholder  | Number of ordinary shares held | Number of share options held | Aggregate long position | Percentage of the issued share capital as at 30 June 2004 |
|--|--------------------------------|------------------------------|-------------------------|---|
| Educational Information Technology (H.K.) Company Limited* | 108,057,374                    | —                            | 108,057,374             | 10.90%  |
| Crimson Asia Capital Limited, L.P.**                       | 105,203,591                    | —                            | 105,203,591             | 10.61%  |
| Kan Siu Kei, Laurie**                                      | 41,978,000                     | 14,000,000                   | 55,978,000              | 5.65%   |

\* 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 held a 25.03% equity interest.

\*\* These shares/underlying shares were beneficially owned by the respective parties.

Save as disclosed above, at 30 June 2004, 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 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.

## 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 2004.

On behalf of the Board

**Cheng Kin Kwan**

*Chairman & Chief Executive Officer*

Hong Kong, 11 August 2004