



TIMELESS SOFTWARE LTD.



Quarterly Report

for the quarter ended 31 December 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 and nine months ended 31 December 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

Condensed Consolidated Income Statements

For the three months and nine months ended 31 December 2004

	Notes	(Unaudited)		(Unaudited)	
		Three months ended 31 December 2004		Nine months ended 31 December 2004	
		HK\$'000	2003 HK\$'000	HK\$'000	2003 HK\$'000
Turnover		776	1,163	2,704	7,381
Other operating income		588	131	775	564
Cost of computer software and hardware sold		(25)	(22)	(25)	(198)
Staff costs		(2,803)	(3,837)	(9,527)	(11,972)
Depreciation and amortisation		(3,483)	(3,303)	(10,379)	(9,951)
Other operating expenses		(1,580)	(6,771)	(5,380)	(16,165)
Gain (loss) on disposal of listed investment securities		—	(70)	—	5,874
Impairment in value of investment securities		—	—	(129)	—
Operating loss		(6,527)	(12,709)	(21,961)	(24,467)
Finance costs		(143)	(113)	(434)	(490)
Share of results of associates		(884)	253	(15,942)	109
Share of results of jointly controlled entities		426	(717)	(3,061)	(600)
Loss before taxation		(7,128)	(13,286)	(41,398)	(25,448)
Taxation	3	—	—	—	3,995
Loss before minority interests		(7,128)	(13,286)	(41,398)	(21,453)
Minority interests		2	3	11	1
Net loss attributable to shareholders		(7,126)	(13,283)	(41,387)	(21,452)
Loss per share	4				
- Basic		(0.72) cents	(1.35) cents	(4.17) cents	(2.23) cents

Condensed Consolidated Statement of Changes in Equity

For the nine months ended 31 December 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	1,910	7,244	—	—	9,154
Expenses incurred in connection with the issue of shares	—	(361)	—	—	(361)
Net loss attributable to shareholders	—	—	—	(21,452)	(21,452)
	<u>49,353</u>	<u>629,518</u>	<u>(9,080)</u>	<u>(444,044)</u>	<u>225,747</u>
At 31 December 2003					
At 1 April 2004	49,503	629,932	(9,080)	(460,681)	209,674
Issue of shares	248	358	—	—	606
Expenses incurred in connection with the issue of shares	—	(11)	—	—	(11)
Net loss attributable to shareholders	—	—	—	(41,387)	(41,387)
	<u>49,751</u>	<u>630,279</u>	<u>(9,080)</u>	<u>(502,068)</u>	<u>168,882</u>
At 31 December 2004					

Notes to the Condensed Consolidated Financial Information

For the nine months ended 31 December 2004

1. Basis of preparation

The condensed consolidated financial information 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").

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 Group's 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. The credit in 2003 represented overprovision of Hong Kong Profits Tax in prior years.

4. Loss per share

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

	Three months ended 31 December		Nine months ended 31 December	
	2004	2003	2004	2003
Net loss attributable to shareholders	<u>HK\$7,126,000</u>	<u>HK\$13,283,000</u>	<u>HK\$41,387,000</u>	<u>HK\$21,452,000</u>
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>993,307,373</u>	<u>986,274,981</u>	<u>991,823,656</u>	<u>961,508,078</u>

No diluted loss per share for the three months and nine months ended 31 December 2004 and 31 December 2003 have been presented as the share options granted by the Company are anti-dilutive.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the quarter ended 31 December 2004 (2003: Nil).

Business Review and Outlook

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 quarter ended 31 December 2004 was approximately HK\$7.1 million compared to a loss of approximately HK\$13.3 million in the same quarter in previous year. The decrease in the loss for this quarter is mainly due to the following:

1. The reduction of staff costs from approximately HK\$3.8 million in the same quarter in previous year to approximately HK\$2.8 million during this quarter;
2. The decrease in other operating expenses from approximately HK\$6.8 million to HK\$1.6 million mainly as a result of the allowance for amounts due from customers for contract work and allowance for bad and doubtful debts totaling approximately HK\$5 million recorded in the same quarter in previous year; and
3. Doubtful debts of approximately HK\$0.5 million were recovered during this quarter.

For the past recent quarters, our operation has always been endeavoring to achieve the successful introduction of the Timeless Consolidated Platform to the world. This is because this event relates closely to the fact of whether we, as a technology company in which software development is a principal activity, can fundamentally resolve the issues of low cost and short cycle of software development and the market share that is resulted from software development. If these two issues are not resolved, our company would still be suffering from continual losses. However, once these two issues are fundamentally resolved, our company will start to make profit and will also make profit continuously.

Thus, the introduction of the Timeless Consolidated Platform to the world will be divided into three steps as follows:

1. Comprehensively revamp the company's website so that significant details of the Timeless Consolidated Platform are disclosed so as to exchange information with the market.
2. Officially introduce the Timeless Consolidated Platform to the world and at the same time, announce the securing of one or more important projects.
3. Deploy the projects secured seriously, and endeavor to make profit continuously.

The first step of the above has been successfully completed on 25 November of the current quarter. The second and third steps have always been what we and our shareholders are longing for.

The Board will strive its best to achieve the goals.

Directors' and Chief Executives' Interests in Securities

As at 31 December 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

Name of director	Number of ordinary shares held			Total number of shares	Percentage of shareholding
	Personal interest	Family interest	Corporate interest		
Cheng Kin Kwan	113,000,000	—	—	113,000,000	11.36%
Law Kwai Lam	10,000,000	—	28,325,000*	38,325,000	3.85%
Chung Yiu Fai	2,970,000	—	—	2,970,000	0.30%
Leung Mei Sheung, Eliza	1,460,000	—	—	1,460,000	0.15%
Wong Wai Ping, Mandy	2,500,000	—	—	2,500,000	0.25%
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 controlled by Mr. Law Kwai Lam.

(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:

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options at 31 December 2004
Cheng Kin Kwan	6/3/2001	6/3/2002 – 5/3/2005	0.6300	1,500,000
	27/4/2001	27/4/2002 – 26/4/2005	0.8180	500,000
	3/10/2001	3/10/2002 – 2/10/2005	0.4450	800,000
	22/4/2002	22/4/2003 – 21/4/2006	0.4550	650,000
	5/9/2003	5/9/2003 – 4/9/2013	0.2280	6,960,000
	8/12/2003	8/12/2003 – 7/12/2013	0.2130	800,000
	25/2/2004	25/2/2004 – 24/2/2014	0.1900	7,700,000
Law Kwai Lam	6/3/2001	6/3/2002 – 5/3/2005	0.6300	800,000
	27/4/2001	27/4/2002 – 26/4/2005	0.8180	200,000
	3/10/2001	3/10/2002 – 2/10/2005	0.4450	200,000
	5/9/2003	5/9/2003 – 4/9/2013	0.2280	2,000,000
	9/1/2004	9/1/2004 – 8/1/2014	0.1900	1,000,000

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

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options at 31 December 2004
Chung Yiu Fai	6/3/2001	6/3/2002 – 5/3/2005	0.6300	1,000,000
	27/4/2001	27/4/2002 – 26/4/2005	0.8180	200,000
	3/10/2001	3/10/2002 – 2/10/2005	0.4450	500,000
	22/4/2002	22/4/2003 – 21/4/2006	0.4550	300,000
	5/9/2003	5/9/2003 – 4/9/2013	0.2280	5,500,000
	8/12/2003	8/12/2003 – 7/12/2013	0.2130	400,000
	25/2/2004	25/2/2004 – 24/2/2014	0.1900	6,450,000
	16/9/2004	16/9/2004 – 15/9/2014	0.0870	2,500,000
	13/12/2004	13/12/2004 – 12/12/2014	0.0982	300,000
Leung Mei Sheung, Eliza	6/3/2001	6/3/2002 – 5/3/2005	0.6300	1,000,000
	27/4/2001	27/4/2002 – 26/4/2005	0.8180	200,000
	3/10/2001	3/10/2002 – 2/10/2005	0.4450	500,000
	5/9/2003	5/9/2003 – 4/9/2013	0.2280	5,500,000
	8/12/2003	8/12/2003 – 7/12/2013	0.2130	4,300,000
	25/2/2004	25/2/2004 – 24/2/2014	0.1900	5,800,000
	13/12/2004	13/12/2004 – 12/12/2014	0.0982	3,800,000
So Mi Ling, Winnie	6/3/2001	6/3/2002 – 5/3/2005	0.6300	300,000
	27/4/2001	27/4/2002 – 26/4/2005	0.8180	200,000
	3/10/2001	3/10/2002 – 2/10/2005	0.4450	200,000
	5/9/2003	5/9/2003 – 4/9/2013	0.2280	2,000,000
	9/1/2004	9/1/2004 – 8/1/2014	0.1900	1,000,000
Wong Wai Ping, Mandy	6/3/2001	6/3/2002 – 5/3/2005	0.6300	800,000
	27/4/2001	27/4/2002 – 26/4/2005	0.8180	200,000
	3/10/2001	3/10/2002 – 2/10/2005	0.4450	500,000
	5/9/2003	5/9/2003 – 4/9/2013	0.2280	5,500,000
	8/12/2003	8/12/2003 – 7/12/2013	0.2130	400,000
	25/2/2004	25/2/2004 – 24/2/2014	0.1900	5,680,000
	13/12/2004	13/12/2004 – 12/12/2014	0.0982	300,000
Zheng Ying Yu	27/4/2001	27/4/2002 – 26/4/2005	0.8180	100,000
	3/10/2001	3/10/2002 – 2/10/2005	0.4450	300,000
	22/4/2002	22/4/2003 – 21/4/2006	0.4550	300,000
	5/9/2003	5/9/2003 – 4/9/2013	0.2280	2,000,000
	8/12/2003	8/12/2003 – 7/12/2013	0.2130	400,000
	9/1/2004	9/1/2004 – 8/1/2014	0.1900	7,000,000
	13/12/2004	13/12/2004 – 12/12/2014	0.0982	800,000
Pun Chung Sang, Trevor	6/3/2001	6/3/2002 – 5/3/2005	0.6300	200,000
	9/4/2001	9/4/2002 – 8/4/2005	0.5920	100,000
	27/4/2001	27/4/2002 – 26/4/2005	0.8180	100,000
	3/10/2001	3/10/2002 – 2/10/2005	0.4450	200,000
	5/9/2003	5/9/2003 – 4/9/2013	0.2280	3,500,000
	26/11/2003	26/11/2003 – 25/11/2013	0.2300	400,000
	9/1/2004	9/1/2004 – 8/1/2014	0.1900	3,000,000

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held by certain directors in trust for the Group, at 31 December 2004, 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 Rule 5.46 of the GEM Listing Rules.

Shareholders' Interests in Securities

As at 31 December 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 31 December 2004
Educational Information Technology (HK) Company Limited*	108,057,374	—	108,057,374	10.86%
Crimson Asia Capital Limited, L.P.**	105,203,591	—	105,203,591	10.57%
Kan Siu Kei, Laurie**	41,978,000	14,000,000	55,978,000	5.63%

* 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 25.03% equity interest.

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

Save as disclosed above, at 31 December 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 31 December 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 31 December 2004.

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

Hong Kong, 7 February 2005