

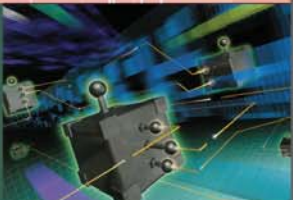


TIMELESS SOFTWARE LTD.



Quarterly Report

for the quarter ended 31 December 2005



010110101010101011

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 ("Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries ("Group") for the three and nine months ended 31 December 2005 together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

Condensed Consolidated Income Statements

For the three and nine months ended 31 December 2005

	Notes	(Unaudited) Three months ended 31 December		(Unaudited) Nine months ended 31 December	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover		650	776	3,022	2,704
Other income		38,405	588	40,959	775
Cost of computer software and hardware sold		(4)	(25)	(696)	(25)
Staff costs		(2,648)	(2,803)	(9,163)	(9,527)
Depreciation and amortisation		(2,243)	(3,483)	(6,884)	(10,379)
Other expenses		(1,978)	(1,580)	(5,535)	(5,380)
Impairment in value of available-for-sale financial assets		—	—	(1,187)	—
Impairment in value of investment securities		—	—	—	(129)
Profit(loss) from operations		32,182	(6,527)	20,516	(21,961)
Finance costs		(395)	(143)	(736)	(434)
Share of results of associates		(395)	(884)	(1,427)	(15,942)
Share of results of jointly controlled entities		(620)	426	(4,165)	(3,061)
Profit(loss) before taxation		30,772	(7,128)	14,188	(41,398)
Taxation	3	—	—	—	—
Profit(loss) for the period		30,772	(7,128)	14,188	(41,398)
Profit(loss) attributable to:					
Equity holders of the Company		30,804	(7,126)	14,361	(41,387)
Minority interests		(32)	(2)	(173)	(11)
		30,772	(7,128)	14,188	(41,398)
Earnings(loss) per share	4				
– Basic		3.01 cents	(0.72) cents	1.41 cents	(4.17) cents
– Diluted		2.99 cents	N/A	1.40 cents	N/A

Condensed Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2005

	Attributable to equity holders of the Company								
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Share capital	Share premium	Share options reserve	Goodwill reserve	Translation reserve	Deficit	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2004	49,503	629,932	—	(9,080)	—	(460,681)	209,674	2,360	212,034
Issue of shares	248	358	—	—	—	—	606	—	606
Expenses incurred in connection with the issue of shares	—	(11)	—	—	—	—	(11)	—	(11)
Loss for the period	—	—	—	—	—	(41,387)	(41,387)	(11)	(41,398)
At 31 December 2004	49,751	630,279	—	(9,080)	—	(502,068)	168,882	2,349	171,231
At 1 April 2005	50,474	630,625	—	—	—	(543,159)	137,940	6,787	144,727
Exchange differences arising from translation of financial statements of overseas operations recognised directly in equity	—	—	—	—	777	—	777	—	777
Profit(loss) for the period	—	—	—	—	—	14,361	14,361	(173)	14,188
Total recognised income and expense for the period	—	—	—	—	777	14,361	15,138	(173)	14,965
Issue of shares	753	340	—	—	—	—	1,093	—	1,093
Expenses incurred in connection with the issue of shares	—	(10)	—	—	—	—	(10)	—	(10)
Recognition of equity settled share-based payments	—	—	1,020	—	—	—	1,020	—	1,020
	753	330	1,020	—	—	—	2,103	—	2,103
At 31 December 2005	51,227	630,955	1,020	—	777	(528,798)	155,181	6,614	161,795

Notes to the Condensed Consolidated Financial Statements

For the nine months ended 31 December 2005

1. Basis of preparation

The condensed consolidated financial statements 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") and complied with all applicable accounting standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the annual financial statements of the Group for the year ended 31 March 2005 except as described below.

In the period under review, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in the change in presentation of income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas:

- (i) HKFRS 2 "Share-based payment"
- (ii) HKFRS 5 "Non-current assets held for sale and discontinued operations"
- (iii) HKAS 32 "Financial instruments : disclosure and presentation"
- (iv) HKAS 39 "Financial instruments : recognition and measurement"

Summary of the effects of the changes in accounting policies

The effects of the changes in the accounting policies described above on the results for the period under review are as follows:

	Nine months ended 31 December 2005
	HK\$'000
Expenses in relation to share options granted to employees and decrease in profit for the period under review	1,020

Notes to the Condensed Consolidated Financial Statements (Continued)

For the nine months ended 31 December 2005

2. Principal accounting policies (Continued)

The cumulative effects of the application of the new HKFRSs as at 31 March 2005 and 1 April 2005 are summarised below:

	31 March 2005	Adjustment	1 April 2005
	HK\$'000	HK\$'000	HK\$'000
	(originally stated)		(restated)
<u>Balance sheet items</u>			
Property, plant and equipment (note a)	131,370	(120,872)	10,498
Available-for-sale financial assets (note b)	—	1,234	1,234
Investments in securities (note b)	1,234	(1,234)	—
Non-current assets classified as held for sale (note a)	—	120,872	120,872
	<u> </u>	<u> </u>	<u> </u>

Notes:

- (a) In accordance with HKFRS 5, the property was reclassified as an asset held for sale.
- (b) Upon the adoption of HKAS 39, the investments in securities were reclassified as available-for-sale financial assets.

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.

4. Earnings(loss) per share

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

	Three months ended 31 December 2005		Nine months ended 31 December 2005	
	2005	2004	2005	2004
Profit(loss) attributable to equity holders of the Company for the purposes of basic and diluted earnings(loss) per share	<u>HK\$30,804,000</u>	<u>HK\$(7,126,000)</u>	<u>HK\$14,361,000</u>	<u>HK\$(41,387,000)</u>
Weighted average number of ordinary shares for the purpose of basic earnings(loss) per share	1,024,281,503	993,307,373	1,021,194,229	991,823,656
Effect of dilutive potential ordinary shares in respect of share options	<u>5,296,819</u>	<u>500,000</u>	<u>6,910,482</u>	<u>3,527,113</u>
Weighted average number of ordinary shares for the purpose of diluted earnings(loss) per share	<u>1,029,578,322</u>	<u>993,807,373</u>	<u>1,028,104,711</u>	<u>995,350,769</u>

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

Interim Dividend

The Board does not recommend the payment of any interim dividend for the nine months ended 31 December 2005 (2004: Nil).

Business Review and Outlook

The directors continued to take a conservative approach for accounting purposes and a stringent view on recognising revenue was still being adopted especially for contracts of relatively longer term in nature in Mainland China. The net profit attributable to equity holders for the nine month period ended 31 December 2005 was approximately HK\$ 14.4 million (2004: a net loss of approximately HK\$41.4 million). The net profit was mainly attributable to the following:

1. The written back of allowance for other receivables of approximately HK\$2.2 million and gain on disposal of certain properties of approximately HK\$37.8 million which were included as other income;
2. The reduction in amortisation of the leasehold land and building in respect of the Group's headquarters at The Center of approximately HK\$2.1 million as a result of adoption of new HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"; and
3. The decrease in the share of losses of associates to approximately HK\$1.4 million for the current period from the previous corresponding period of approximately HK\$15.9 million.

For the period under review, turnover was approximately HK\$3 million, an increase of 11.8 % from HK\$2.7 million in the corresponding period in previous year. The Group had adopted HKFRS 2 "Share-based Payment" to account for its share options in the period under review and recognised an amount of share option expense of approximately HK\$1 million in staff costs. Further impairment in value of investment securities of approximately HK\$1.2 million was classified as impairment in value of available-for-sale financial assets.

Subsequent to the issue on 10 November 2005 of the Company's Quarterly Report for the quarter ended 30 September 2005, further progress has been made in respect of the disposal of the Group's property at 79/F, The Center. In the current period, the disposal had been completed at the end of December 2005 and the Group recognised a gain on such disposal of approximately HK\$36.2 million.

Following the completion of disposal of the above property, the Group is now in a much strengthened financial position to implement more aggressive marketing strategies in promoting the technologies and benefits of the Timeless Consolidated Platform and in expanding markets and product lines. In particular, the Group will continue to focus on high technology content areas such as digital broadcasting, multimedia message streaming, three dimensional geographic information delivery and collaborative remote-network security monitoring.

Directors' and Chief Executives' Interests in Securities

At 31 December 2005, the interests and short positions of the directors and the chief executives of the Company and their associates in the shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or otherwise notified to the Company and the Exchange pursuant to Rule 5.46 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Exchange (the "GEM Listing Rules"), were as follows:

Long positions

(a) Ordinary shares of HK\$0.05 each 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	144,206,000	—	—	144,206,000	14.08%
Law Kwai Lam	10,000,000	—	28,325,000*	38,325,000	3.74%
Chung Yiu Fai	4,170,000	—	—	4,170,000	0.41%
Leung Mei Sheung Eliza	4,330,000	—	—	4,330,000	0.42%
Zheng Ying Yu	500,000	—	—	500,000	0.05%
Fung Chun Pong Louis	2,488,000	—	—	2,488,000	0.24%
Liao Yun	1,010,000	—	—	1,010,000	0.10%

* These shares were held by a private company which is wholly-owned 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 2005
Cheng Kin Kwan	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	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
	28/2/2005	28/2/2005 – 27/2/2015	0.0722	1,000,000
Chung Yiu Fai	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	2,300,000
	13/12/2004	13/12/2004 – 12/12/2014	0.0982	300,000
	28/2/2005	28/2/2005 – 27/2/2015	0.0722	6,000,000
	22/9/2005	22/9/2005 – 21/9/2015	0.0920	2,400,000

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

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

Name of director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options at 31 December 2005
Leung Mei Sheung Eliza	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	3,430,000
	28/2/2005	28/2/2005 – 27/2/2015	0.0722	3,500,000
	22/9/2005	22/9/2005 – 21/9/2015	0.0920	400,000
So Mi Ling Winnie	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
	28/2/2005	28/2/2005 – 27/2/2015	0.0722	1,000,000
Zheng Ying Yu	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	500,000
	28/2/2005	28/2/2005 – 27/2/2015	0.0722	2,000,000
Fung Chun Pong Louis	22/9/2005	22/9/2005 – 21/9/2015	0.0920	400,000
	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
	19/4/2004	19/4/2004 – 18/4/2014	0.2096	300,000
	30/9/2004	30/9/2004 – 29/9/2014	0.0900	300,000
	13/12/2004	13/12/2004 – 12/12/2014	0.0982	300,000
Liao Yun	22/9/2005	22/9/2005 – 21/9/2015	0.0920	400,000
	22/4/2002	22/4/2003 – 21/4/2006	0.4550	200,000
	5/9/2003	5/9/2003 – 4/9/2013	0.2280	800,000
	26/11/2003	26/11/2003 – 25/11/2013	0.2300	400,000
	9/1/2004	9/1/2004 – 8/1/2014	0.1900	790,000
	19/4/2004	19/4/2004 – 18/4/2014	0.2096	300,000
	16/9/2004	16/9/2004 – 15/9/2014	0.0870	500,000
	30/9/2004	30/9/2004 – 29/9/2014	0.0900	500,000
	13/12/2004	13/12/2004 – 12/12/2014	0.0982	300,000
	28/2/2005	28/2/2005 – 27/2/2015	0.0722	2,000,000
Ng Kwok Tung	22/9/2005	22/9/2005 – 21/9/2015	0.0920	400,000
	28/2/2005	28/2/2005 – 27/2/2015	0.0722	1,000,000

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 2005, none of the directors or chief executives or any of 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 31 December 2005, 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 2005
Educational Information Technology (HK) Company Limited*	108,057,374	—	108,057,374	10.55%
Crimson Asia Capital Limited, L.P.**	105,203,591	—	105,203,591	10.27%
Kan Siu Kei Laurie**	41,978,000	17,000,000	58,978,000	5.76%

* 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% equity interest.

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

Save as disclosed in the section "Directors' and Chief Executives' Interests in Securities", at 31 December 2005, 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 2005, none of the directors or management shareholders (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 2005.

On behalf of the Board

Cheng Kin Kwan

Chairman & Chief Executive Officer

Hong Kong, 8 February 2006