



Timeless

Software Limited

Interim Report
for the quarter ended 30 June 2000

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 Interim Report 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 Interim 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 Interim 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 Interim Report misleading; and (3) all opinions expressed in this Interim Report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULTS

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 months ended 30 June 2000 together with the comparative unaudited figures for the corresponding period in 1999 as follows:

	Note	Three months ended 30 June	
		2000 HK\$'000	1999 HK\$'000
Turnover	2	33,375	14,895
Other revenues	2	4,830	528
		<u>38,205</u>	<u>15,423</u>
Cost of sale of computer software and hardware		(5,209)	(729)
Staff costs		(10,395)	(7,576)
Depreciation		(570)	(519)
Other operating expenses		(3,894)	(2,436)
Operating profit		18,137	4,163
Finance costs	3	(2,984)	(1,381)
Profit before taxation		15,153	2,782
Taxation	4	—	—
Profit for the period retained		<u>15,153</u>	<u>2,782</u>
Earnings per share - Basic	5	<u>2.02 cents</u>	<u>0.87 cents</u>

Notes:

1. Basis of presentation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention.

The unaudited consolidated results include the results of the Company and all its subsidiaries made up to 30 June. The results of subsidiaries acquired or disposed of during the period are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2. Revenue and turnover

The Group is principally engaged in the provision of computer consultancy services, the development and sale of computer software, and magazine publishing. Revenues recognised during the period are as follows:

	Three months ended 30 June	
	2000	1999
	HK\$'000	HK\$'000
Turnover		
Income from the provision of computer consultancy services	24,997	14,657
Sale of computer hardware and software	8,314	237
Advertising income	57	—
Subscription income	7	1
	<u>33,375</u>	<u>14,895</u>
Other revenues		
Interest income	4,675	14
Commission received	—	482
Net exchange gain	124	5
Miscellaneous income	31	27
	<u>4,830</u>	<u>528</u>
Total revenues	<u>38,205</u>	<u>15,423</u>

3. Finance costs

	Three months ended 30 June	
	2000	1999
	HK\$'000	HK\$'000
Interest on		
Finance lease	10	—
Acquisition of land and building paid to vendor	2,974	—
Loans from a shareholder	—	1,342
Amount due to a third party	—	39
	<u>2,984</u>	<u>1,381</u>

4. Taxation

Hong Kong profits tax has not been provided as there are sufficient tax losses of the Group brought forward to set off against the estimated assessable profit for the period. No provision for Hong Kong and overseas taxes have been made in previous period's accounts as the group had no assessable profits in these jurisdictions in previous period.

No provision for income tax of the People's Republic of China ("PRC") has been made in the accounts as the subsidiary in the PRC has no assessable profit for the year ended 31 December 1999 and is entitled to a 100% tax relief for the year ending 31 December 2000.

No deferred taxation has been recognised in the accounts as the crystallisation of the deferred tax asset in the foreseeable future is uncertain.

5. Earnings per share

The calculation of the basic earnings per share is based on the Group's profit for the three months ended 30 June 2000 of approximately HK\$15,153,000 (1999: HK\$2,782,000) and 750,000,000 shares (1999: 320,000,000 shares after adjusting for the stock split taken place during the year ended 31 March 2000) in issue during the period.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 30 June 2000 (1999: Nil).

BUSINESS REVIEW AND PROSPECT

General

Following a record year, the Group continued to achieve solid result in the first quarter of the new financial year, generating profit of HK\$15.2 million out of total revenues of HK\$38.2 million for the three months ended 30 June 2000.

Comparing to the same period last year, revenue was up by 147.7% and the profit before taxation was up by 444.7%. Our Internet Technology Platform ("ITP") remained the key contributor to this spectacular growth and our China operation brought in more encouraging news in the quarter.

The spectacular growth in the first quarter, which has usually been a slow yet indicative quarter of the year, marked a good start and has made us more comfortable while we look forward to the full year performance. The respectable profit and margin acquired has clearly differentiated us from other players in the industry and our unique business model has reassured our role of being a genuine owner and creator of technology enabling the world of Internet and e-Commerce.

Progress in China

The co-operation with the Ministry of Information Industry in the Zhuhai Southern Software Park has reached very advanced stage and we expect the joint-venture agreement to be reached before the next quarterly report. An alliance has been formed with a leading university in southern China focusing on research and development into Internet technologies especially multi-level network security and super-performance search engine. A branch office of the Group in Beijing will be opened within the second quarter to cover demand for quality software solution and service in the northern part of China.

The Group has been awarded a contract by a leading privately owned mobile communication company in China, to provide total solution for a nationwide Internet Service and Content Provider (ISP/ICP) network. The solution will be based on the ITP developed by the Group with enhancement to cater for latest broadband related functionality. The contract is so far the largest of this kind from our China operation. Successes such as this reinforce our assessment of the potential of, and our competence in, this most substantial market.

The expected entrance of China to the World Trade Organization ("WTO") and the inevitable convergence of Telecommunication and Internet into Broadband technology will open up enormous opportunities for us. The Group has been envisioning such changes and will leverage on our established strength to stay ahead of any competition.

Product Development

As our ITP become mature and complete, it is now feasible to package Internet applications designed by the Group into off-the-shelf products.

The high level structure of the Timeless ITP will comprise Database Architecture, Web Publishing System, Portal Generator, Standard Portal Components, and Framework. It is worth mentioning that the Portal Generator is a unique functionality of the platform by capturing the customer's specific requirement using an artificial intelligent approach and then generating the equivalent runtime and data structure automatically. The platform can also seamlessly integrate third party applications with minimal customization.

We believe the architectural design of our ITP is among the most advanced in the world and its high scalability will enable us to be more ahead of competitors in the broadband front. The Group will relentlessly invest in the productisation of our solution and the further enrichment of its functionality to cater for future requirements in demand by the market.

Transaction with Cheung Kong

Further to the agreement in December 1999 with Cheung Kong (Holdings) Limited ("Cheung Kong"), we have completed the transaction related to the acquisition of the office space at 79/F, The Center (the "Premises") on 13 July 2000.

The Premises will be our Group headquarters to be equipped with state-of-the-art Broadband facilities. It will be a showcase of our vision to the future technological development as well as a valley where the best innovation and talent of our time are created and concentrated.

As part of the transaction, a wholly owned subsidiary of Cheung Kong subscribed for a convertible note (the "Note") of approximately HK\$35.7 million, which carries a right to convert into shares in the Company at a price of HK\$3.4125 per share. The Company issued the Note so as to establish a co-operative relationship with one of Hong Kong's largest conglomerates and to finance the completion of its purchase of the Premises.

Outlook

The quarter just past was characterized by high volatility of the technology markets both in the United States and Hong Kong, and a consequent wide-spread consolidation in Internet investments. The adverse atmosphere would inevitably put some Internet projects and ventures on hold and cause a short-term impact to our business volume.

We are of the view that the present consolidation in the technology market will force new economy operators to be more serious with the technology they should adopt to achieve their business objectives, especially when cash-burning in advertisement and content production is fast becoming out of favor. In the long run this will be good news for the Group as our solutions are more directed to serving sophisticated customers.

Any major shake-ups in the market and the industry will provide investors with more insight to differentiate genuine technology companies from the others. As a company possessing solid foundation, proven technology, profitable business model, as well as long term vision which has always been ahead of time, the Group stands to prevail and be benefited from the change ahead.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

At 30 June 2000, the interests of the directors and chief executives in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name	Personal interests	Corporate interests
Mr. Cheng Kin Kwan ¹	48,400,000 shares	—
Mr. Cheng Wan Cheung, Danny ¹	42,400,000 shares	—
Mr. Kan Siu Kei, Laurie ¹	42,400,000 shares	—
Mr. Law Kwai Lam	10,000,000 shares	28,325,000 shares ²
Ms Chan Vivien	50,000 shares	—
Mr. Poon Cho Yiu, Ronald	400,000 shares	—

1. Mr. Cheng Kin Kwan, Mr. Cheng Wan Cheung, Danny and Mr. Kan Siu Kei, Laurie are initial management shareholders as defined in Rule 13.15(2) of the GEM Listing Rules. Their holdings represent respectively 6.45%, 5.65% and 5.65% of the issued share capital of the Company.
2. These shares were held by a private company controlled by Mr. Law Kwai Lam.

Save as disclosed above and other than nominee shares in certain wholly-owned subsidiaries held in trust for the Group, at 30 June 2000, none of the directors, chief executives or their associates had any interests in any securities of the Company and its associated corporations as defined in the SDI Ordinance.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

At no time during the period was the Company or its subsidiaries a party to any arrangement to enable the directors and chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 30 June 2000, the Company had been notified of the following substantial shareholder's interests, being 10% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors and chief executives.

Name	Number of shares	Percentage of issued share capital
Crimson Asia Capital Limited, L.P.	144,786,580	19.30%

MANAGEMENT SHAREHOLDERS

Save for the initial management shareholders and substantial shareholder as herein-above disclosed, the directors are not aware of any persons who as at 30 June 2000 were entitled to exercise or control the exercise of 5 per cent. or more of the voting power at general meetings of the Company and who were able, as a practical matter, to direct or influence the management of the Company.

Save as disclosed herein, the directors are not aware of, as at 30 June 2000, any business or interest of each director, initial management shareholder and the respective associates of each that competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the period.

INTEREST OF SPONSOR

ING Barings Asia Limited has entered into a sponsorship agreement with the Company whereby, for a fee, ING Barings Asia Limited will act as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period from 18 November 1999 to 31 March 2002.

To the knowledge of ING Barings Asia Limited, its directors, employees and associates, at 30 June 2000, did not have any interests in the securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

By Order of the Board
Cheng Kin Kwan
Chairman

Hong Kong, 28 July 2000