

The following is the text of a report prepared for the purpose of incorporation in this prospectus received from the reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong:



羅兵咸永道會計師事務所

22nd Floor  
Prince's Building  
Central  
Hong Kong

18th November, 1999

The Directors  
Timeless Software Limited  
ING Barings Asia Limited

Dear Sirs,

We set out below our report on the financial information regarding Timeless Software Limited (the "Company") and its subsidiaries and associated company (hereinafter collectively referred to as the "Group") for the period from 12th March, 1996 (date of incorporation) to 31st March, 1997 and each of the two years ended 31st March, 1999 and the five months ended 31st August, 1999 for inclusion in the prospectus of the Company dated 18th November, 1999.

The Company was incorporated in Hong Kong on 12th March, 1996 under the Hong Kong Companies Ordinance.

We have acted as auditors of the companies comprising the Group for the periods referred to in this report ("relevant period") except as follows:—

Company	Auditors	Financial period
Timeless Software Limited	C.W. Lee & Co. Certified Public Accountants Hong Kong	Period from 12th March, 1996 (date of incorporation) to 31st March, 1997 and the year ended 31st March, 1998
Expert Consulting Limited	Coopers & Lybrand (a predecessor firm of PricewaterhouseCoopers) Certified Public Accountants Hong Kong	Year ended 31st March, 1997
	C.W. Lee & Co. Certified Public Accountants Hong Kong	Year ended 31st March, 1998

Company	Auditors	Financial period
Three Principles Computer Service Company Limited	C.W. Lee & Co. Certified Public Accountants Hong Kong	Period from 1st January, 1996 to 31st March, 1997 and the year ended 31st March, 1998
Corp-Vision Publishing Limited	Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong	Year ended 31st December, 1997
Timeless Software (Guangzhou) Limited	Guangzhou Honghai Certified Public Accountants The People's Republic of China	Period from 25th January, 1998 (date of establishment) to 31st December, 1998

The summaries of the consolidated results of the Group for each of the relevant period and of the consolidated net assets of the Group as at 31st August, 1999 set out in this report have been prepared based on the audited and management accounts of the companies comprising the Group, on the basis set out in paragraph 1 below and in accordance with accounting principles generally accepted in Hong Kong, after making such adjustments as appropriate.

No audited accounts have been prepared by Timeless China Limited, Timeless Strategy Limited, eDynasty21.com Limited (formerly known as Pan Asian Consultants Limited), Timeless Holdings Limited and Timeless Laboratories Limited since their incorporation as they have not carried out any business. We have, however, reviewed all relevant transactions relating to these companies during the relevant period.

The accounts of Timeless Software (Guangzhou) Limited for the relevant period were prepared in accordance with the applicable accounting principles and relevant financial regulations in the People's Republic of China. For the purpose of this report, we have performed an independent audit of the accounts of Timeless Software (Guangzhou) Limited for the relevant period in accordance with Auditing Standards issued by the Hong Kong Society of Accountants. In addition, we have also examined the audited accounts or, where appropriate, management accounts of all companies comprising the Group for the relevant period and have carried out such additional procedures as we consider necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants. Adjustments have been made to the audited accounts of the companies comprising the Group for the purposes of this report to ensure that they comply with accounting principles generally accepted in Hong Kong and the accounting policies currently adopted by the Group.

The directors of the companies comprising the Group are responsible for preparing financial statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are also responsible for the consolidated results of the Group for the relevant period and of the consolidated net assets of the Group as at 31st August, 1999.

It is our responsibility to form an independent opinion on the summaries of the consolidated results of the Group for the relevant period and of the consolidated net assets of the Group as at 31st August, 1999.

In our opinion, the financial information set out below together with the notes thereto gives, for the purpose of this report and in all material respects, a true and fair view of the consolidated results of the Group for the period from 12th March, 1996 to 31st March, 1997 and each of the two years ended 31st March, 1999 and the five months ended 31st August, 1999 and of the consolidated net assets of the Group as at 31st August, 1999.

## **1 BASIS OF PRESENTATION**

The summary of consolidated results and net assets includes the results of the subsidiaries from their effective dates of acquisition using the acquisition method of accounting as the Company acquired the shares of these subsidiaries by cash and there is no continuation of management in these subsidiaries.

All significant intra-group transactions and balances have been eliminated on consolidation.

## **2 PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies which have been adopted in arriving at the financial information included in this report are set out below. These policies conform with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

### **(a) Associated company**

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and in whose management significant influence is exercised.

The results of the Group include the Group's share of the results of the associated company for the relevant periods, and the consolidated balance sheet includes the Group's share of the net assets of the associated company.

### **(b) Goodwill**

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries acquired and is eliminated against reserves in full in the year of acquisition.

### **(c) Revenue recognition**

Revenue from the provision of computer consultancy services is recognised when services are rendered in stages as separate identifiable phases of a project are completed. The sale of computer software, which is part of the computer consultancy services, is recognised when it is delivered to customers and title has passed. Foreseeable losses on contracts in progress are recognised in full when identified.

The sale of computer hardware is recognised as revenue on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from advertising is recognised when the related advertisement or commercial is placed and services are rendered.

Subscription income is recognised on a straight-line basis over the period when the publication items are dispatched to subscribers.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Commissions from suppliers are recognised when confirmed by the suppliers.

**(d) Fixed assets**

Fixed assets are stated at cost less accumulated depreciation and depreciated at rates sufficient to write off their cost over their estimated useful lives on a straight line basis. The principal annual rates are as follows:

Leasehold improvements	.. .. .	20%
Computer equipment	.. .. .	20%
Furniture and fixtures	.. .. .	20%
Office equipment	.. .. .	20%

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

**(e) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

**(f) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet dates are translated at the rates of exchange ruling at the balance sheet dates. All exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet dates. Exchange differences arising are dealt with as a movement in reserves.

**(g) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

**(h) Borrowing costs**

All borrowing costs are charged to the profit and loss account in the period in which they are incurred.

**(i) Project and computer software development costs**

All costs incurred in the provision of computer consultancy services and all computer software development costs are expensed as incurred.

**(j) Pre-operating costs**

The pre-operating costs of new ventures are deferred and amortised over a period of five years from commencement of commercial operations.

**3 RESULTS**

The following is a summary of the consolidated results of the Group for the period from 12th March, 1996 to 31st March, 1997 and each of the two years ended 31st March, 1999 and the five months ended 31st August, 1999 prepared on the basis set out in paragraph 1 above, after making such adjustments as appropriate:—

		Period from	Year ended 31st March,		Five months
		12th March, 1996 to 31st March, 1997	1998	1999	ended 31st August, 1999
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover .. .. .	(a)	<u>26,816</u>	<u>40,985</u>	<u>43,346</u>	<u>25,688</u>
(Loss)/profit for the period .. ..	(b)	<u>(12,133)</u>	<u>(25,058)</u>	<u>(13,297)</u>	<u>4,135</u>
Minority interests .. .. .		<u>—</u>	<u>1,134</u>	<u>—</u>	<u>—</u>
(Loss)/profit attributable to shareholders .. .. .		<u>(12,133)</u>	<u>(23,924)</u>	<u>(13,297)</u>	<u>4,135</u>
(Loss)/earnings per share					
— Basic .. .. .	(c)	<u>HK\$(1.21)</u>	<u>HK\$(2.39)</u>	<u>HK\$(1.09)</u>	<u>HK\$0.22</u>
— Fully diluted .. .. .	(c)	<u>—</u>	<u>—</u>	<u>—</u>	<u>HK\$0.19</u>

Notes:

## (a) Turnover

	Period from	Year ended 31st March,		Five months
	12th March, 1996 to 31st March, 1997	1998	1999	ended 31st August, 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Income from the provision of computer consultancy services ..	10,325	26,535	38,407	25,656
Sale of computer hardware .. ..	16,491	14,450	4,137	6
Advertising income .. .. .	—	—	725	22
Subscription income .. .. .	—	—	77	4
Turnover .. .. .	26,816	40,985	43,346	25,688
Interest income .. .. .	642	790	345	459
Commission received .. .. .	—	—	145	482
Total revenue .. .. .	<u>27,458</u>	<u>41,775</u>	<u>43,836</u>	<u>26,629</u>

## (b) (Loss)/profit for the period/year

(Loss)/profit for the period/year is stated after charging and crediting the following:—

	Period from	Year ended 31st March,		Five months
	12th March, 1996 to 31st March, 1997	1998	1999	ended 31st August, 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Charging</b>				
Auditors' remuneration .. .. .	28	69	115	143
Depreciation .. .. .	1,514	2,279	2,398	938
Loss on disposal of fixed assets ..	238	—	362	4
Operating charges				
Land and buildings .. .. .	2,718	5,149	5,563	1,680
Hire of computer equipment ..	378	220	—	—
Interest on				
Loans from a shareholder .. .. .	—	3,231	5,658	2,244
Amount due to a third party ..	—	—	447	232
Bank loans and overdrafts .. ..	210	328	—	—
Costs of goods sold .. .. .	14,016	15,884	3,566	3,726
Net exchange loss .. .. .	—	106	44	—
<b>Crediting</b>				
Net exchange gain .. .. .	<u>45</u>	<u>—</u>	<u>—</u>	<u>3</u>

## (c) (Loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the weighted average number of 19,069,787 (year ended 31st March, 1999: 12,230,137; 1998 & 1997: 10,000,000) ordinary shares in issue during the

relevant period. The diluted earnings per share for the five months ended 31st August, 1999 is based on 21,682,690 ordinary shares which is the weighted average number of ordinary shares in issue during the five months ended 31st August, 1999 plus 2,612,903 shares issued on 2nd November, 1999 pursuant to a subscription agreement dated 19th June, 1999. No diluted loss per share is calculated for the period from 12th March, 1996 to 31st March, 1997 and years ended 31st March, 1998 and 1999 as the effect is anti-dilutive.

(d) **Emoluments of directors and senior management**

(i) Details of the emoluments paid to the directors are as follows:—

	Period from 12th March, 1996 to 31st March, 1997	Year ended 31st March,		Five months ended 31st August, 1999
		1998	1999	
		HK\$'000	HK\$'000	
Fees .. .. .	—	—	—	—
Salaries and other emoluments .. .. .	5,250	6,429	5,114	2,394
	<u>5,250</u>	<u>6,429</u>	<u>5,114</u>	<u>2,394</u>

No directors waived any emoluments during the relevant period.

The emoluments of the directors are within the following bands:—

	Period from 12th March, 1996 to 31st March, 1997	Year ended 31st March,		Five months ended 31st August, 1999
		1998	1999	
Nil - HK\$1,000,000 .. .. .	3	3	5	9
HK\$1,000,001 - HK\$1,500,000 .. .. .	2	—	1	—
HK\$1,500,001 - HK\$2,000,000 .. .. .	1	2	1	—
HK\$2,000,001 - HK\$2,500,000 .. .. .	—	1	—	—
	<u>6</u>	<u>6</u>	<u>7</u>	<u>9</u>

(ii) The five individuals whose emoluments were the highest in the Group are as follows:—

	Period from 12th March, 1996 to 31st March, 1997	Year ended 31st March,		Five months ended 31st August, 1999
		1998	1999	
Directors .. .. .	4	4	4	3
Non-directors .. .. .	1	1	1	2
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

- (iii) Details of the emoluments of the non directors as mentioned in paragraph 3(d)(ii) above are as follows:—

	Period from	Year ended 31st March,		Five months
	12th March,	31st March,		ended
	1996 to	1998	1999	31st August,
	31st March,			1999
	1997	1998	1999	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees .. .. .	—	—	—	—
Salaries and other emoluments .. .. .	550	862	845	625
	<u>550</u>	<u>862</u>	<u>845</u>	<u>625</u>

(e) **Taxation**

- (i) No provision for Hong Kong and overseas taxes has been made in the accounts as the Group had no assessable profits in these jurisdictions during the relevant period.
- (ii) The deferred tax asset relating to tax losses available for carry forward has not been recognised in the accounts as the crystallisation of this asset in the foreseeable future is uncertain.

(f) **Related party transactions**

In the normal course of business, the Group had the following material transactions with directors during the relevant period:—

	Note	Period from	Year ended 31st March,		Five months
		12th March,	31st March,		ended
		1996 to	1998	1999	31st August,
		31st March,			1999
		1997	1998	1999	1999
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental paid to Cheng Wan Cheung and Cheng Kin Kwan (directors) .. .. .	(a)	—	—	882	490
Interest paid on loans from Choi Kin Chung (former director and shareholder) ..	(b)	—	3,231	5,658	2,244
Loan received from Choi Kin Chung .. .. .	(b), 4(c)	49,730	10,000	—	—
Loan received from Cheng Kin Kwan, Cheng Wan Cheung, Danny and Law Kwai Lam (directors) .. .. .	(c), 4(c)	<u>—</u>	<u>—</u>	<u>5,000</u>	<u>—</u>

Notes:—

- (a) This represents the lease of the office at Guangzhou in the People's Republic of China ("PRC") at a monthly rental of HK\$98,020.
- (b) Interest was charged on the loans from Choi Kin Chung at interest rates ranging from 8.2% to 10% per annum.
- (c) The loans from Cheng Kin Kwan, Cheng Wan Cheung, Danny and Law Kwai Lam are interest free.

The Directors have confirmed that the above transactions (excluding loans from directors and shareholder) will continue in the future and, where applicable, in accordance with the relevant agreements governing these payments.

(g) **Transfers to and from reserves**

The movements in reserves during the relevant period were as follows:—

	Period from	Year ended 31st March,		Five months
	12th March,	31st March,		ended
	1996 to	1998	1999	31st August,
	31st March,			1999
	1997			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange fluctuation arising from translation of accounts of a subsidiary in the PRC .. .. .	—	—	—	50
Goodwill on acquisition of subsidiaries transferred to profit and loss reserve .. .. .	16,645	4,038	1,406	—

#### 4 NET ASSETS

The following is a summary of the consolidated net assets of the Group as at 31st August, 1999 prepared on the basis set out in paragraph 1 above, after making such adjustments as appropriate:—

	Note	HK\$'000
<b>Fixed assets</b> .. .. .	(a)	5,784
<b>Investment in an associated company</b> .. .. .	(b)	17
<b>Deferred pre-operating costs</b> .. .. .		2,985
<b>Current assets</b>		
Trade receivables .. .. .		16,132
Deposits, prepayments and other receivables .. .. .		1,773
Bank balances and cash .. .. .		65,821
		83,726
<b>Current liabilities</b>		
Loans from shareholders .. .. .	(c)	34,492
Trade and other payables .. .. .		7,382
		41,874
<b>Net current assets</b> .. .. .		41,852
		50,638
Deduct:—		
Long term loans from shareholders .. .. .	(c)	37,535
<b>Net assets</b> .. .. .		13,103

Notes:—

## (a) Fixed assets

	Cost	Accumulated depreciation	Net book value
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold improvements .. .. .	3,232	1,470	1,762
Computer equipment .. .. .	5,663	3,200	2,463
Furniture and fixtures .. .. .	1,230	748	482
Office equipment .. .. .	2,142	1,065	1,077
	<u>12,267</u>	<u>6,483</u>	<u>5,784</u>

## (b) Investment in an associated company

	<i>HK\$'000</i>
Share of net assets other than goodwill .. .. .	<u>17</u>

## (c) Loans from shareholders

	<i>HK\$'000</i>
Interest bearing, unsecured and repayable by instalments up to 30th September, 2001 .. .. .	47,222
Accrued interest wholly repayable within six months after 30th September, 2001 ..	9,805
Interest bearing, unsecured and wholly repayable on 31st October, 1999 .. .. .	10,000
Interest-free, unsecured and no fixed terms of repayment .. .. .	5,000
	<u>72,027</u>
Less: current portion .. .. .	<u>(34,492)</u>
	<u>37,535</u>

## (d) Commitments

## (i) Commitments under operating leases

As at 31st August, 1999, the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:—

	<i>HK\$'000</i>
In the second to fifth years inclusive .. .. .	<u>2,177</u>

(ii) *Capital commitments*

	<i>HK\$'000</i>
Capital contribution to a prospective subsidiary in the PRC:—	
Contracted but not provided for .. .. .	<u>8,000</u>

(e) **Banking facilities and contingent liabilities**

- (i) As at 31st August, 1999, bank guarantees totalling HK\$2,044,600 were issued by the banks of the Group and these bank guarantees were secured by the Group's bank deposits of HK\$2,044,600. Apart from the afore-mentioned bank guarantees, as at 31st August, 1999, the Group was granted banking facilities totalling HK\$5 million which are secured by the Group's bank deposits.
- (ii) As at 31st August, 1999, the Group had received various claims from customers, an investment consultant and a former shareholder of a subsidiary. On the basis of appropriate legal advice, the directors are satisfied that the ultimate disposition of these pending legal proceedings will not have a material effect on the Group's financial position or the results of its operations, and no provision for any loss has been made.

**5 SUBSEQUENT EVENTS**

- (a) On 2nd November, 1999, 2,612,903 shares were issued to Crimson Investments, Limited and Crimson Asia Capital Limited, L.P. at HK\$7.75 per share for cash amounting to HK\$20.25 million pursuant to a subscription agreement dated 19th June, 1999.
- (b) The Group made capital contributions amounting to HK\$0.8 million and HK\$7.2 million in September and October 1999 respectively to Timeless Southern (Zhuhai) Software Co., Limited.

**6 DIRECTORS' REMUNERATION**

Save as disclosed in Section 3 note (d), no remuneration has been paid or is payable in respect of the relevant period by the Company or any of its subsidiaries to the directors of the Company. Under the arrangement currently in force, it is estimated that the aggregate remuneration payable by the Group to the directors of the Company, before discretionary bonuses and share options, if any, which are subject to the approval of the board of directors, for the year ending 31st March, 2000 is expected to be approximately HK\$5,794,000.

## 7 SUBSIDIARIES AND ASSOCIATED COMPANY

The particulars of the Company's direct and indirect subsidiaries and associated company, all of which are private companies or, if established outside Hong Kong, have substantially the same characteristics as a private company, as at 31st August, 1999 are as follows:—

Company	Place and date of incorporation/ establishment	Issued/ contributed capital	Attributable interest	Principal activities
<b>Direct subsidiaries</b>				
Three Principles Computer Service Company Limited	Hong Kong 22nd November, 1983	HK\$5,000,000	100%	Provision of computer consultancy services, and development and sale of computer software
Expert Consulting Limited	Hong Kong 21st May, 1992	HK\$5,000,000	100%	Provision of computer consultancy services, and development and sale of computer software
Corp-Vision Publishing Limited	Hong Kong 30th May, 1989	HK\$100,000	100%	Magazine Publishing
Timeless China Limited	Hong Kong 21st November, 1997	HK\$2	100%	Investment holding
Timeless Strategy Limited	Hong Kong 28th November, 1997	HK\$2	100%	Inactive
eDynasty21.com Limited (formerly known as Pan Asian Consultants Limited)	Hong Kong 5th November, 1997	HK\$10,000	100%	Inactive
Timeless Laboratories Limited	Hong Kong 19th December, 1997	HK\$100,000	100%	Inactive
<b>Indirect subsidiary</b>				
Timeless Software (Guangzhou) Limited*	The People's Republic of China 25th January, 1998	Rmb2,000,000	100%	Design, development and maintenance of computer software and system as well as provision of consultancy services
<b>Associated company</b>				
Timeless Holdings Limited	Hong Kong 8th December, 1997	HK\$2	50%	Inactive

\* *Timeless Software (Guangzhou) Limited is a co-operative joint venture between the Company's subsidiary and an unrelated third party in the PRC ("the Joint Venturer"). The joint venture has a life of 10 years commencing January 1998. In accordance with the co-operative joint venture agreement, the Company's subsidiary has to contribute 100% of the registered capital of the joint venture whereas the Joint Venturer*

*is responsible for providing certain supporting services to the joint venture. In return, the Joint Venturer is entitled to RMB72,000 per annum in the first year of operation of the joint venture and RMB120,000 per annum in the years thereafter. Except for such fixed payment to the Joint Venturer, the Company's subsidiary is entitled to the entire results of the joint venture.*

## **8 SUBSEQUENT ACCOUNTS**

No audited accounts have been prepared for the companies comprising the Group in respect of any period subsequent to 31st August, 1999 and, save as disclosed in this report, no dividend or other distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to 31st August, 1999.

Yours faithfully  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong