
IMPORTANT

This circular is for information purpose only and does not constitute an invitation or offer to acquire or subscribe for securities of Infoserve Technology Corp.

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Infoserve Technology Corp., you should at once hand this circular and the accompanying form of proxy to the purchaser or to the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



INFOSERVE TECHNOLOGY CORP.

英普達資訊科技公司*

(Incorporated in the Cayman Islands with limited liability)

**CONNECTED AND DISCLOSEABLE TRANSACTION
PROPOSED ISSUE OF UNLISTED
REDEEMABLE CONVERTIBLE NOTES**

**Independent financial adviser to the Independent Board Committee
of Infoserve Technology Corp.**



MasterLink Securities (Hong Kong) Corporation Limited

This circular will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page for 7 days from the date of this circular and on the website of Infoserve Technology Corp. at www.infoserve-group.com.

20th December, 2002

* For identification purpose only

CHARACTERISTICS OF GEM OF THE STOCK 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 further 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 of the Stock Exchange 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 Stock 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.

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context requires otherwise.

“Announcement”	the announcement of the Company dated 29th November, 2002;
“associate”	has the meaning ascribed thereto under the GEM Listing Rules;
“Board”	the board of Directors;
“Company”	Infoserve Technology Corp., a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM;
“Completion”	completion of the Subscription Agreement;
“connected person”	has the meaning ascribed thereto under the GEM Listing Rules;
“Conversion Price”	being HK\$0.20 per Conversion Share, subject to adjustment in accordance with the terms of the Instrument;
“Conversion Rights”	the rights attached to the Notes pursuant to the exercise of which the holder(s) of the Notes is/are entitled to convert the principal amount or a part thereof into Shares;
“Conversion Share(s)”	the Share(s) to be issued upon conversion of the Notes;
“Current Market Price”	the average of the closing prices for one Share for the five Stock Exchange dealing days (on which Shares have traded) preceding the relevant date;
“Director(s)”	the director(s) of the Company;
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, passing the resolution contained in the EGM Notice to approve the Subscription Agreement, the Subscription and the allotment and issue of the Conversion Shares under the Notes, the notice of which is set out on pages 36 to 37 of this circular;

DEFINITIONS

“EGM Notice”	the notice convening the EGM set out on pages 36 to 37 of this circular;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange;
“Group”	the Company and its subsidiaries (as defined in the Companies Ordinance, Chapter 32 of the Laws of Hong Kong);
“Guarantors”	Mr. Chang and Mr. Tsai;
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	the independent Board committee, comprising Mr. CHOU Wen Pin and Mr. LEUNG Man Kit, formed to advise the Independent Shareholders in relation to the Subscription and the issue of the Notes;
“Independent Shareholders”	being Shareholders other than the Subscriber (and its associates, if any, who are also the Shareholders);
“Instrument”	the instrument creating the Notes to be executed by the Company and the Guarantors at Completion;
“KA Land”	KA Land Pte Ltd., an investment holding company incorporated in Singapore with limited liability and a substantial shareholder of the Company. It is a wholly-owned subsidiary of Singapore Telecommunications Limited;
“Latest Practicable Date”	17th December, 2002, being the latest practicable date prior to the despatch of this circular for the purposes of ascertaining certain information contained in this circular;
“Maturity Date”	15 months after the date on which the Notes are issued;

DEFINITIONS

“MasterLink”	MasterLink Securities (Hong Kong) Corporation Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), which has been appointed as the independent financial adviser to the Independent Board Committee in relation to the Subscription Agreement and the Notes;
“Mr. Chang”	Chang Hsiao Hui (also known as Michael Chang), a Director and a substantial Shareholder;
“Mr. Tsai”	Tsai Jenp Luh (also known as Phil Tsai), a Director and a substantial Shareholder;
“Notes”	convertible notes of an aggregate principal amount of HK\$7,800,000 to be issued by the Company under the Subscription Agreement and the Instrument;
“Noteholder(s)”	holder(s) of the Note(s);
“PRC”	the People’s Republic of China, which for the purposes of this circular excludes Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 10th September, 2001;
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong);
“Share(s)”	ordinary share(s) of nominal value of HK\$0.01 each in the capital of the Company;
“Shareholders”	holders of Shares;
“Share Option Scheme”	the share option scheme approved and adopted by the Company on 21st December, 2001;
“SingTel”	Singapore Telecommunications Limited, a company incorporated in Singapore with limited liability and the shares of which are listed on the Stock Exchange of Singapore Limited. It is the holding company of KA Land;

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subscriber”	KA Land;
“Subscription”	the subscription by the Subscriber for the Notes on the terms and subject to the conditions set out in the Subscription Agreement;
“Subscription Agreement”	the conditional subscription agreement dated 29th November, 2002 entered into between the Company, the Subscriber and the Guarantors relating to the Subscription;
“substantial shareholder”	has the meaning ascribed to it in the GEM Listing Rules; and
“US\$” and “US cents”	United States dollar(s) and cents respectively, the lawful currency of the United States of America.

LETTER FROM THE BOARD



INFOSERVE TECHNOLOGY CORP.

英普達資訊科技公司*

(Incorporated in the Cayman Islands with limited liability)

Board of Directors:

Executive directors:

TSAI Jenp Luh

CHANG Hsiao Hui

LIU Yuan Chang

Non-executive directors:

BUAY Kee Chuan

YEO Eng Choon

TAY Chek Khoon

*(alternative to BUAY Kee Chuan
and YEO Eng Choon)*

Independent non-executive directors:

CHOU Wen Pin

LEUNG Man Kit

Registered office:

2nd Floor

Cayside, Harbour Drive

P.O. Box 30592

SMB

George Town

Grand Cayman

Cayman Islands

British West Indies

*Head office and principal place
of business in Hong Kong:*

Suites 2401 - 4, 24th Floor

Dah Sing Financial Centre

108 Gloucester Road

Wanchai

Hong Kong

20th December, 2002

To the Shareholders

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTION
PROPOSED ISSUE OF UNLISTED
REDEEMABLE CONVERTIBLE NOTES**

INTRODUCTION

It was announced on 29th November, 2002 that the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Subscriber has conditionally agreed to subscribe for the Notes in aggregate principal amount of HK\$7,800,000. The Notes are convertible into Shares at an initial Conversion Price of HK\$0.20 per Share, subject to adjustment. The obligations of the Company under the Notes are guaranteed by the Guarantors.

* For identification purpose only

LETTER FROM THE BOARD

The maximum number of new Shares which may be issued upon full conversion of the Notes based on the initial Conversion Price of HK\$0.20 per Share is 39,000,000 Shares, representing approximately 6.78% and approximately 6.35% of the existing share capital and the enlarged share capital (assuming only that the Notes will be converted in full at the initial Conversion Price into Shares), respectively of the Company. The Notes will not be listed on the Stock Exchange or any other stock exchange. The initial Conversion Price of HK\$0.20 represents a premium of approximately 21.2% to the closing price of HK\$0.165 per Share (as stated in the Stock Exchange's daily quotation sheet) on 29th November, 2002, being the date of the Subscription Agreement.

The Company has made an application to the Listing Committee of GEM for the listing of and permission to deal in the Conversion Shares.

The issue of the Notes will, upon completion, raise HK\$7.8 million. Subject to the Subscription Agreement becoming unconditional, the Company intends to use the said proceeds to repay the bridging loans, which were borrowed by the Company from the Subscriber in October and November 2002 for the purpose of financing the general working capital of the Company. The aggregate principal amount of the bridging loans is US\$1,000,000.

An independent board committee of the Company (comprising Mr. CHOU Wen Pin and Mr. LEUNG Man Kit) has been formed to consider the terms of the Subscription Agreement and the Notes and to make its recommendation to the Independent Shareholders of the Company in relation to thereto.

The Company has announced that the EGM will be held to seek the approval of the Independent Shareholders with respect to the Subscription Agreement, the Subscription and the allotment and issue of the Conversion Shares on terms of the Instrument.

Terms defined in the circular (the "Circular") of which this letter forms part, shall, unless the context herein requires otherwise, have the same meanings when used herein. The purpose of this letter, the other sections and the appendix of the circular and the EGM Notice is (i) to provide you with further information relating to the Subscription Agreement and the Notes; (ii) to set out the opinion and recommendation of the Independent Board Committee in respect of the terms of the Subscription Agreement and the Notes as advised by MasterLink; (iii) to set out the letter of advice from MasterLink to the Independent Board Committee with respect to the terms of the Subscription Agreement and the Notes; and (iv) to seek the Independent Shareholders' approval at the EGM to be convened in relation to the Subscription Agreement, the Subscription and the allotment and issue of the Conversion Shares on terms of the Instrument.

LETTER FROM THE BOARD

UNLISTED REDEEMABLE CONVERTIBLE NOTES

Terms of the Subscription Agreement

- Date: 29th November, 2002
- Parties: (1) The Company (as issuer)
- (2) KA Land (as subscriber)
- (3) Mr. Chang and Mr. Tsai (as guarantors)

Subject to the fulfilment of the conditions in the Subscription Agreement, the Company will issue, and the Subscriber will subscribe for, the Notes for the principal amounts aggregating HK\$7,800,000. The Notes shall, at the option and sole discretion of the Noteholder(s), be converted in whole or in part, into ordinary shares of HK\$0.01 each in the share capital of the Company before the Maturity Date. The Guarantors have agreed to guarantee the obligations of the Company under the Subscription Agreement.

KA Land, a wholly owned subsidiary of SingTel, is interested in approximately 24.99% of the issued Shares of the Company. SingTel is one of Asia's leading communications companies and provides a comprehensive range of services including voice and data services over fixed, wireless and Internet platforms.

Conditions of the Subscription Agreement

Completion of the Subscription Agreement is conditional upon the satisfaction of the following conditions:–

- (a) the Stock Exchange agreeing to grant listing of and permission to deal in the Conversion Shares;
- (b) the Stock Exchange having approved the issue of the Notes, or the Company not having received any objection from the Stock Exchange to the issue of the Notes; and
- (c) the Subscription Agreement, the Subscription and the allotment and issue of the Conversion Shares on terms of the Instrument having been approved by the Shareholders at the EGM to be convened, with the Shareholders who are not permitted under the GEM Listing Rules to vote in relation to the resolution to be proposed at the EGM abstaining from voting.

LETTER FROM THE BOARD

The above conditions cannot be waived and should such conditions not be fulfilled by 10th January, 2003 (or such later date as the Company and the Subscriber may agree) the Subscription Agreement will lapse.

Since the Subscriber is a substantial shareholder of the Company, it (and any of its associates who is also a Shareholder, if any) is/are not permitted to vote its or their (as the case may be) Shares at the EGM under the provisions of the GEM Listing Rules applicable to the Subscription.

Completion

Completion of the Subscription shall take place at 3:00 p.m. on the third business day next following the date on which the last of the above-mentioned conditions precedent have been fulfilled (or such other date as the Company and the Subscriber shall agree). At Completion, the Company and the Guarantors will execute the Instrument annexed to the Subscription Agreement and the Company will issue the Notes thereunder.

Summary of the principal terms of the Notes

The principal terms of the Notes are summarised as follows:

Issuer:	The Company
Principal Amount:	HK\$7,800,000
Maturity Date:	15 months after the date on which the Notes are issued
Issue Price:	100 per cent. of the principal amount of the Notes
Interest:	The Notes shall bear interest at 1% per annum above the Hong Kong prime rate on the date of issue of the Notes, payable at maturity, conversion or redemption of the Notes
Conversion Date:	The Notes shall, at the option and sole discretion of the Noteholder(s), be converted in whole or in part, into ordinary shares of HK\$0.01 each in the share capital of the Company before the Maturity Date
Conversion Price:	The initial conversion price is HK\$0.20 per Share, subject to adjustment from time to time under certain circumstances (including, amongst other things,

LETTER FROM THE BOARD

consolidation or subdivision of the Shares, Shares issued pursuant to capitalisation of profits or reserves, the making of capital distribution by the Company and rights or other issues of Shares or other convertible securities of the Company) on terms of the Instrument

- Redemption at maturity: Unless previously redeemed or converted into Shares, all the outstanding principal of the Notes shall be repaid in full by the Company in cash on the Maturity Date at the face value of the Notes
- Redemption at the option of the Company: If (and only if) at any time after the Notes have been issued and prior to (but not including) the Maturity Date, the then Current Market Price of the Shares is higher than 130% of the Conversion Price, the Company may repay, at 102% of the face value of the Notes in cash, all outstanding principal of the Notes by giving the Subscriber not less than 30 days' prior written notice (provided that the relevant Noteholder(s) does/do not exercise any right to convert its/their Note(s) into Conversion Shares within 14 business days after the date of the redemption notice)
- Form: The Notes are issued in registered form in the denomination of HK\$780,000 or any multiples of HK\$780,000. A certificate will be issued to the Subscriber in respect of its registered holding of Notes. Each Note and each certificate will be numbered serially with an identifying number which will be recorded on the relevant certificate and in a register which the Company will cause to be kept
- Status: The Notes constitute unsecured general obligations of the Company. The payment obligations of the Company under the Notes shall, save for such exceptions as may be provided by applicable legislation, rank at least equally with all its other present and future unsecured and unsubordinated obligations. The Conversion Shares issued upon conversion of the Notes will in all respects rank *pari passu* with the Shares then in issue

LETTER FROM THE BOARD

- Guarantee: Mr. Chang and Mr. Tsai, being directors and substantial shareholders of the Company, have agreed to provide unconditional and irrevocable personal guarantees in respect of the Company's obligations under the Notes. In addition, it is also a term of the Notes that Mr. Chang and Mr. Tsai will not, before the full redemption or conversion of the Notes, dispose of any Shares legally or beneficially owned by either one of them, resulting in either one of them ceasing to be the legal and beneficial owner of not less than 10% of the issued share capital of the Company
- Listing: No application will be made for the listing of, or permission to deal in, the Notes on the Stock Exchange or any other stock exchange. The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares
- Transferability: The Notes are freely transferable subject to compliance with all applicable laws and regulations

BASIS OF THE DETERMINATION OF THE CONVERSION PRICE

The Conversion Price was determined after arm's length negotiation between the Company and the Subscriber taking into account (a) the Share price and the market sentiment at the time of negotiation of the terms of the Notes; and (b) the amount of Shares that may potentially be issued upon full conversion of the Notes and the relative liquidity of the Shares on the Stock Exchange.

USE OF PROCEEDS AND REASONS FOR THE ISSUE OF NOTES

The Group is principally engaged in the provision of (i) communications services; (ii) Internet access and related services; and (iii) virtual private network and solutions services. Presently, the Group provides its services mainly to small and medium-sized enterprises principally in five Asian markets comprising Taiwan, Hong Kong, the PRC, Japan, Singapore, and the United States.

The issue of the Notes will, upon Completion, raise HK\$7.8 million and the Company intends to use such proceeds to repay the bridging loans, which were borrowed by the Company from the Subscriber in October and November 2002 for the purpose of financing the general working capital of the Group. The incidental expenses for the issuance of the Notes of approximately HK\$0.3 million will be financed by internal resources of the Company.

LETTER FROM THE BOARD

The aggregate principal amount of the bridging loans is US\$1,000,000, and the other principal terms of the bridging loans are as follows:–

- Interest: 1% per annum above the prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited
- Period: 1 month, subject to extension at Subscriber's discretion, but subject to Subscriber's request for full repayment on demand
- Principal: US\$300,000 (first bridging loan) and US\$700,000 (second bridging loan)
- The bridging loans were not secured by any assets of the Company
- The Company's obligations under the bridging loans were guaranteed by Mr. Chang and Mr. Tsai

Since the bridging loans were extended by the Subscriber for the benefit of the Company on better than normal commercial terms (as the rate of interest under the bridging loans was lower than that offered by a banker of the Company) with no security over the assets of the Company being given to the Subscriber, the bridging loans fall within Rule 20.52(2) of the GEM Listing Rules and are exempted for disclosure and shareholders' approval requirements. In the Announcement, the Directors also confirmed that the financial position of the Group had also improved as compared with that as at 30th June, 2002 (which was disclosed in the Company's published half yearly report of 2002); and the Directors also estimated that the cash, current assets and current liabilities positions of the Group were at levels similar to those as at 30th June, 2002 (which were disclosed in the Company's published half-yearly report of 2002).

The issue of the Notes will improve the financial position and enhance the financing flexibility of the Group, which the Directors consider to be beneficial to the Group and the shareholders of the Company taken as a whole. Furthermore, since the bridging loans were short term financing for a duration of one month, the issue of the Notes with a 15 month maturity period will allow the Company greater flexibility in managing its financial arrangements, and, in the event that the Notes are converted into Shares, the capital base of the Company will be further enhanced.

Comparison of the Conversion Price with market prices

The Conversion Price represents:

- (1) a premium of approximately 21.2% to the closing price of HK\$0.165 per Share (as stated in the Stock Exchange's daily quotation sheet) on 29th November, 2002, being the date of the Subscription Agreement; and

LETTER FROM THE BOARD

- (2) a premium of approximately 25.8% to the average closing prices (as stated in the Stock Exchange's daily quotation sheets) of the Shares of HK\$0.159 per Share of the 10 dealing-day period ended on, and including, 29th November, 2002.

EFFECT ON THE ISSUED SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the issued share capital of the Company was HK\$5,753,824.56 comprising 575,382,456 Shares. KA Land (being the Subscriber) is currently the single largest shareholder of the Company, holding 143,802,864 Shares, representing approximately 24.99% of the existing issued share capital as at the Latest Practicable Date. The maximum number of new Shares which may be issued upon conversion of the Notes based on the initial Conversion Price of HK\$0.20 is 39,000,000 Shares, representing approximately 6.78% and approximately 6.35% of the issued share capital as at the Latest Practicable Date and the enlarged issued share capital (upon and assuming full conversion of the Notes only), respectively of the Company. Assuming and after full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Conversion Share, the shareholding interests of all the other shareholders of the Company will be proportionately diluted and the shareholding interest of KA Land in the Company will be increased from approximately 24.99% to approximately 29.75% upon such full conversion of the Notes.

FINANCIAL EFFECTS OF THE SUBSCRIPTION

Upon Completion of the Subscription, the Company intends to use the proceeds of HK\$7.8 million from the issue of the Notes to repay the bridging loans, which were borrowed by the Company from the Subscriber in October and November 2002. It is expected that long-term borrowings of the Group will increase, and short-term borrowings of the Group will decrease, by HK\$7.8 million (approximately US\$1,000,000).

Given that the Notes bear interest at 1% per annum above the Hong Kong prime rate and assuming that the Hong Kong prime rate (which was at 5% on the Latest Practicable Date) would remain unchanged up to the date of issue of the Notes, the interest rate of the Notes would be 6% and, on that basis, the maximum amount of interest payable to the Noteholder(s) per annum would be HK\$468,000. The incidental expenses for the issuance of the Notes of approximately HK\$0.3 million will be recognised as issue cost in the income statement.

CONNECTED AND DISCLOSEABLE TRANSACTION

The Subscriber is a substantial shareholder, and hence a connected person, of the Company under the GEM Listing Rules. In addition, the consideration payable by the Subscriber for the Notes is HK\$7,800,000 (or approximately US\$1,000,000), which amount represents approximately 36.9% (being more than 15%) of the unaudited consolidated net tangible asset value of approximately US\$2.29 million of the Group as at 30th June, 2002 as

LETTER FROM THE BOARD

adjusted by the issue of 39,000,000 Shares at HK\$0.20 per Share on 25th October 2002 and the unaudited consolidated loss of the Group for the three months ended 30th September, 2002. The Subscription accordingly constitutes connected and discloseable transaction for the Company within the meaning of the GEM Listing Rules, because, as mentioned above, the Subscriber is a substantial shareholder of the Company. Accordingly, the Subscription is subject to the approval of the Independent Shareholders at the EGM to be convened, at which an ordinary resolution will be proposed to approve, amongst other things, the Subscription and the issue of the Notes and the Conversion Shares, with the Subscriber (and its associates who are also Shareholders, if any) abstaining from voting on the resolution at the EGM.

Any alterations in the terms of the Notes after issue will be subject to the approval of the Stock Exchange, except where the alteration takes effect automatically under the terms of the Notes.

LISTING

No application will be made for the listing of, or permission to deal in, the Notes on the Stock Exchange or any other stock exchange. The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

Dealings in Shares may be settled through the Central Clearing and Settlement System established by Hong Kong Securities Clearing Company Limited and investors in Shares should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

EGM AND VOTING RECOMMENDATIONS

The Company will convene the EGM at which an ordinary resolution will be proposed to approve the Subscription and the issue of the Notes and the Conversion Shares upon conversion of the Notes, and, accordingly, the Conversion Shares will not be issued by the Directors exercising the general mandate granted by the Shareholders at the annual general meeting of the Company held on 29th April, 2002.

The Independent Board Committee has been formed to advise the Independent Shareholders in respect of the terms of the Subscription Agreement and the Notes, and MasterLink has been appointed to advise the Independent Board Committee regarding the terms of the Subscription Agreement and the Notes.

Based on the factors and the intended use of the proceeds of the Subscription stated in the paragraph headed "USE OF PROCEEDS AND REASONS FOR THE ISSUE OF NOTES" in this letter, the Directors believe that the terms of the Subscription Agreement and the Notes are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The

LETTER FROM THE BOARD

Directors therefore recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement, the Subscription and the allotment and issue of the Conversion Shares on terms of the Instrument.

Having considered the advice given by MasterLink, the Independent Board Committee also recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Subscription Agreement, the Subscription and the allotment and issue of the Conversion Shares on terms of the Instrument. Details of the advice of the Independent Board Committee is set out in its letter on pages 15 to 16 of the Circular.

Since the Subscriber is a substantial shareholder of the Company, it (and any of its associates who is also a Shareholder, if any) is/are not permitted to vote its or their (as the case may be) Shares at the said EGM under the provisions of the GEM Listing Rules applicable to the Subscription.

GENERAL

Your attention is drawn to the text of the letter from the Independent Board Committee (set out on pages 15 to 16 of the Circular) which contains the recommendation of the Independent Board Committee to the Independent Shareholders concerning the Subscription Agreement and the Notes, and the letter from MasterLink to the Independent Board Committee (set out on pages 17 to 29 of the Circular) which contains the recommendation of MasterLink to the Independent Board Committee in relation to the terms of the Subscription Agreement and the Notes and the factors and reasons considered by MasterLink in arriving at its recommendation. In addition, your attention is drawn to the general information set out in the appendix to this circular and to the EGM Notice.

An announcement of the results of the EGM will be made on the business day following the EGM.

By Order of the board of
Infoserve Technology Corp.
TSAI Jenp Luh
Chairman



INFOSERVE TECHNOLOGY CORP.

英普達資訊科技公司*

(Incorporated in the Cayman Islands with limited liability)

20th December, 2002

To the Independent Shareholders:

Dear Sir or Madam,

**CONNECTED AND DISCLOSEABLE TRANSACTION
PROPOSED ISSUE OF UNLISTED
REDEEMABLE CONVERTIBLE NOTES**

INTRODUCTION

We, being the independent non-executive Directors comprising the Independent Board Committee, are writing to you to set out our recommendation in respect of the terms of the Subscription Agreement and the Notes. Terms and expressions defined in the circular dated 20th December, 2002 of Infoserve Technology Corp. (the “Circular”, of which this letter forms part) shall have the same meanings when used herein.

Since the Subscription constitutes a connected transaction within the meaning of the GEM Listing Rules for the Company, the Independent Board Committee has been appointed by the Board to advise you as an Independent Shareholder whether in its view the terms of the Subscription Agreement and the Notes are in the best interests of the Company and the Independent Shareholders as a whole and whether the relevant terms of the Subscription Agreement and the Notes are fair and reasonable. MasterLink has been appointed to advise the Independent Board Committee in this relation.

The terms of the Subscription Agreement and the Notes are summarised in the Letter from the Board set out on pages 5 to 14 of the Circular. In addition, the Independent Board Committee has been advised by MasterLink in reviewing the terms of the Subscription Agreement and the Notes. You are strongly urged to read the letter from MasterLink to the Independent Board Committee, which is set out on pages 17 to 29 of the Circular. As referred to in the Letter from the Board, since the Subscriber is a substantial shareholder of the Company, it (and any of its associates who is also a Shareholder, if any) is/are not permitted to vote its or their (as the case may be) Shares at the said EGM under the provisions of the GEM Listing Rules applicable to the Subscription.

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

Being members of the Independent Board Committee, we have discussed with the management of the Company the reasons for the Subscription. We have also discussed with MasterLink the bases of its advice to us.

Taking into account the principal factors and reasons considered, and the recommendation given, by MasterLink, the Independent Board Committee considers that the terms of the Subscription Agreement and the Notes are in the best interests of the Company and Independent Shareholders as a whole and that the terms of the Subscription Agreement and the Notes are fair and reasonable insofar as the Independent Shareholders as a whole are concerned.

Accordingly, the Independent Board Committee recommends that you vote in favour of the ordinary resolution set out in the EGM Notice for approving the Subscription Agreement, the Subscription and the allotment and issue of the Conversion Shares on terms of the Instrument.

Yours faithfully,

THE INDEPENDENT BOARD COMMITTEE

Vincent, CHOU Wen Pin

and

Michael, LEUNG Man Kit

Independent non-executive Directors

LETTER FROM MASTERLINK

The following is the text of a letter of advice to the Independent Board Committee from MasterLink setting out its opinion regarding the terms of the Subscription Agreement and the Notes prepared for the purpose of incorporation in this circular:



MasterLink Securities (Hong Kong) Corporation Limited

Unit 2603, 26th Floor
The Center
99 Queen's Road Central
Central
Hong Kong

20th December, 2002

*To the Independent Board Committee of
Infoserve Technology Corp.*

Dear Sirs,

CONNECTED AND DISCLOSEABLE TRANSACTION PROPOSED ISSUE OF UNLISTED REDEEMABLE CONVERTIBLE NOTES

INTRODUCTION

We refer to our engagement to advise the Independent Board Committee in respect of the terms of the Subscription Agreement and the Notes. Details of the Subscription Agreement and the Notes are set out in the letter from the Board (the "Letter") contained in the circular of the Company dated 20th December, 2002 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires. Unless otherwise specified, translation of US\$ into HK\$ in this letter is based on the approximate exchange rate of HK\$7.8 to US\$1.

The Subscriber, holding approximately 24.99% of the existing issued share capital of the Company, is a substantial shareholder, and hence a connected person (as defined under the GEM Listing Rules), of the Company. Accordingly, the Subscription constitutes a connected transaction of the Company within the meaning of the GEM Listing Rules and is subject to the approval of the Independent Shareholders. The Subscription also constitutes a discloseable transaction for the Company within the meaning of the GEM Listing Rules. In our capacity as the independent financial adviser to the Independent Board Committee for the purpose of the GEM Listing Rules, our role is to give you an independent opinion as to whether the terms of

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the Subscription Agreement and the Notes, from a financial perspective, are fair and reasonable so far as the Independent Shareholders generally are concerned. We have not been requested to opine on, and our opinion does not in any manner address, the Company's decision to proceed with the Subscription Agreement.

In formulating our opinion, we have relied on the accuracy of the information and facts supplied, and the opinions and representations expressed, to us by the Directors, the Company and its management. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due and careful enquiry and are based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations referred to in the Circular and provided to us by the Company and the Directors, and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We have also assumed that all statements of intention of the Company or its Directors as set out in the Circular will be implemented. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have assumed that all information and representations made or referred to in the Circular and provided to us by the Company and the Directors were true, complete and accurate at the time they were made and continue to be true, complete and accurate at the date of the EGM. We have not, however, carried out any independent verification of the information and representations provided to us nor have we conducted any form of independent investigation into the businesses and affairs, financial position or the future prospects of the Company or any of its subsidiaries or their respective associates.

Our opinion is necessarily based upon the financial, economic, market, regulatory and other conditions as they exist on, and the facts, information, representations and opinions made available to us as of, the Latest Practicable Date. We disclaim any undertaking or obligation to advise any person of any change in any fact or matter affecting the opinion expressed herein which may come or be brought to our attention after the Latest Practicable Date.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons we have taken into account in assessing the terms of the Subscription Agreement and the Notes and in giving our advice to the Independent Board Committee are set out below:

Financial position of the Group

As stated in the annual report of the Company for the year ended 31st December, 2001, we note that the financial statements as at and for the year ended 31st December, 2001 have been prepared on a going concern basis which assumes that the Group will be able to meet its

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financial obligations when they fall due. We further note that as stated in the half-yearly report of the Company for the six months ended 30th June, 2002 and the third quarterly report of the Company for the nine months ended 30th September, 2002, the Group's credit facilities are guaranteed by two Directors, Mr. Chang and Mr. Tsai, who have agreed to provide the Group with sufficient funding to enable the Group to meet in full its financial obligations for the next twelve months, and accordingly, both the half-yearly report and the third quarterly report of the Company have been prepared on a going concern basis.

For the two years ended 31st December, 2000 and 31st December, 2001, the audited consolidated loss attributable to Shareholders was approximately US\$20.45 million and US\$27.53 million respectively. According to the third quarterly report of the Company for the nine months ended 30th September, 2002, the Group recorded unaudited consolidated net losses of approximately US\$19.10 million and US\$4.55 million for the nine months ended 30th September, 2001 and 30th September, 2002, respectively.

According to the half-yearly report of the Company for the six months ended 30th June, 2002, the unaudited consolidated net asset value and the unaudited consolidated net tangible asset value (excluding trademarks) of the Group as at 30th June, 2002 were approximately US\$2.29 million and US\$2.24 million respectively. As set out in the sub-paragraph headed "Net tangible asset value" under the paragraph headed "Financial effects of the issue of the Notes on the Group" below, the Directors have confirmed that taking into account the issue of 39,000,000 Shares at HK\$0.20 per Share in October 2002 and the unaudited consolidated net loss of the Group for the three months ended 30th September, 2002, the pro forma adjusted unaudited consolidated net tangible asset value of the Group before the issue of the Notes would be approximately US\$2.71 million.

We summarise in the following table (i) the net current liabilities position; and (ii) the gearing position of the Group as at 30th June, 2002 and 31st December, 2001:

	As at 30th June, 2002 (Unaudited) <i>(US\$'000)</i>	As at 31st December, 2001 (Audited) <i>(US\$'000)</i>
Current assets	11,225	8,442
Current liabilities	16,328	17,299
(i) Net current liabilities	(5,103)	(8,857)
Net asset value	2,288	2,072
Total borrowings and loans including obligations under finance leases	12,484	9,004
(ii) Gearing ratio	5.46	4.35

Source: Half-yearly report of the Company for the six months ended 30th June, 2002.

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As at 30th June, 2002, the Group recorded net current liabilities of approximately US\$5.10 million. Out of the current liabilities of approximately US\$16.33 million as at 30th June, 2002, approximately US\$0.85 million was deferred revenue (being service fees received in advance from customers) and approximately US\$4.19 million was short term bank loans. As confirmed by the Directors, the majority of the aforesaid short term bank loans have been renewed upon maturity subsequent to 30th June, 2002. The gearing ratio of the Group was increased from approximately 4.35 as at 31st December, 2001 to approximately 5.46 as at 30th June, 2002. Furthermore, as stated in the Letter, the Directors estimated that the current assets and current liabilities positions of the Group were at levels similar to those, as at 30th June, 2002 (which were disclosed in the half-yearly report of the Company for the six months ended 30th June, 2002).

Reasons for the issue of the Notes and use of proceeds

The Company intends to use the proceeds raised from the issue of the Notes to repay the bridging loans, which were borrowed by the Company from the Subscriber in October and November 2002 for the purpose of financing the general working capital of the Group. The aggregate principal amount of the bridging loans is US\$1 million and the other principal terms of the bridging loans are as follows:

- Interest: 1% per annum above the prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited
- Period: 1 month, subject to extension at the Subscriber's discretion, but subject to the Subscriber's request for full repayment on demand
- The bridging loans were not secured by any assets of the Company
- The Company's obligations under the bridging loans were guaranteed by Mr. Chang and Mr. Tsai

As stated in the Letter, the issue of the Notes will improve the financial position and enhance the financing flexibility of the Group, which the Directors consider to be beneficial to the Group and the Shareholders taken as a whole. Furthermore, since the bridging loans were short term financing for a duration of one month, the issue of the Notes with a 15-month maturity period will allow the Company greater flexibility in managing its financial arrangements, and in the event that the Notes are converted into Shares, the capital base of the Company will be further enhanced. We concur with the Directors' view in this regard.

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Alternative means of fund raising

As discussed with the management of the Company, the Directors have considered other financing alternatives other than the issue of the Notes to the Subscriber, such as debt financing from banks and placing of new Shares. We are advised by the Directors that the Company had approached banks for the borrowing of money of similar size at the same interest rate of 1% plus Hong Kong prime rate on an unsecured basis but no agreement was reached. Furthermore, the issue of the Notes will not have an immediate dilution effect on the shareholding of the existing Shareholders, unlike other equity financing method such as placing of new Shares.

In light of the above, the Directors are of the view that the issue of the Notes is an appropriate means of raising fund for the Company under such circumstances. We concur with the Directors' view in this regard.

Principal terms of the Notes

As stated in the Letter, the terms of the Notes were agreed between the Company and the Subscriber after arm's length negotiation. Principal terms of the Notes are set out in the Letter.

Conversion Price

Pursuant to the Subscription Agreement, the initial Conversion Price is set at HK\$0.20 per Share, subject to adjustment. As stated in the Letter, the Conversion Price was arrived at after arm's length negotiation between the Company and the Subscriber taking into account (a) the price of the Shares and the market sentiment at the time of negotiation of the terms of the Notes; and (b) the amount of Shares that may potentially be issued upon full conversion of the Notes and the relative liquidity of the Shares on the Stock Exchange. We note that the initial Conversion Price of HK\$0.20 per Share is the same as the subscription price (HK\$0.20 per Share) of a placing of 39,000,000 new Shares (the "Placing") in October 2002 as described in a circular of the Company dated 4th October, 2002. We also note that the amount of the gross fund raised from the Placing was HK\$7.8 million which is the same as that of the issue of the Notes.

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The following table depicts the closing price or average closing prices of the Shares as quoted on the Stock Exchange on the date or during the respective periods as stated below and the respective premiums of the initial Conversion Price of HK\$0.20 per Share over such prices:

Date/ period	Closing price/average closing price for the period (HK\$)	Premium of the Conversion Price over the closing price/ average closing price (%)
29th November, 2002 (being the date of the Subscription Agreement)	0.165	21.2%
The last 10 trading days up to and including 29th November, 2002	0.159	25.8%
The last 30 trading days up to and including 29th November, 2002	0.153	30.7%

As shown in the above table, the initial Conversion Price of HK\$0.20 per Share was set at premiums over the closing price of the Shares on 29th November, 2002 (being the date of the Subscription Agreement) and the average closing prices of the Shares for the different periods described in the table above, ranging from approximately 21.2% to approximately 30.7%. We also note that the initial Conversion Price of HK\$0.20 per Share is equal to the closing price of the Shares on the Latest Practicable Date of HK\$0.20 per Share. In addition, the initial Conversion Price of HK\$0.20 per Share represents a significant premium of approximately 441% over the pro forma adjusted unaudited consolidated net tangible asset value per Share before the issue of the Notes of approximately US0.470 cents (or approximately HK\$0.037) (as set out in the sub-paragraph headed “Net tangible asset value” under the paragraph headed “Financial effects of the issue of the Notes on the Group” below).

The total number of the Shares and the average of the daily number of the Shares traded on the Stock Exchange in each of the four months prior to the Announcement, for the period

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from 1st November, 2002 to 29th November, 2002 (being the date of the Announcement) and for the period from 2nd December, 2002 to the Latest Practicable Date were as follows:

Month/Period	Total number of the Shares traded	Average of the daily number of the Shares traded
July 2002	4,225,000	192,045
August 2002	10,000,000	454,545
September 2002	935,000	44,524
October 2002	140,000	6,667
1st November, 2002 to 29th November, 2002	4,430,000	210,952
2nd December, 2002 to the Latest Practicable Date	165,000	13,750

The average monthly turnover of the Shares from July 2002 to October 2002 was 3,825,000 Shares, representing a turnover of approximately 0.66% of the issued share capital of the Company as at the date of the Announcement.

For the period from 1st November, 2002 to 29th November, 2002 (being the date of the Announcement), the daily average trading volume of the Shares was approximately 210,952 Shares, representing approximately 0.04% of the issued share capital of the Company as at the date of the Announcement. During the period from 2nd December, 2002 to the Latest Practicable Date, the daily average trading volume of the Shares was 13,750 Shares, representing approximately 0.002% of the issued share capital of the Company as at the Latest Practicable Date.

Hence, taking into an overall account of :

- (i) the premiums of the initial Conversion Price of HK\$0.20 per Share over the closing price of the Shares on 29th November, 2002 (being the date of the Subscription Agreement) and the average closing prices of the Shares for the last 10 and 30 trading days up to and including 29th November, 2002 as mentioned above;
- (ii) the significant premium of the initial Conversion Price of HK\$0.20 per Share over the pro forma adjusted unaudited consolidated net tangible asset value per Share before the issue of the Notes as mentioned above;
- (iii) the low liquidity of the Shares traded over the recent periods as mentioned above; and
- (iv) the working capital position and the loss-making track record of the Group as mentioned in the paragraph headed “Financial position of the Group”,

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we consider that the initial Conversion Price of HK\$0.20 per Share is acceptable for the Company and so far as the Independent Shareholders generally are concerned.

Redemption

(i) Redemption at maturity

As stated in the Letter, unless previously redeemed or converted into the Shares, all the outstanding principal of the Notes shall be repaid in full by the Company in cash on the Maturity Date at the face value of the Notes.

(ii) Redemption at the option of the Company

As stated in the Letter, if (and only if) at any time after the Notes have been issued and prior to (but not including) the Maturity Date, the then Current Market Price of the Shares is higher than 130% of the Conversion Price, the Company may repay, at 102% of the face value of the Notes in cash, all outstanding principal of the Notes by giving the Subscriber not less than 30 days' prior written notice (provided that the relevant Noteholder(s) does/do not exercise any right to convert its/their Note(s) into Conversion Shares within 14 business days after the date of the redemption notice).

We have identified 5 cases of issue of convertible notes/bonds by companies listed on GEM in year 2002, and we note that 3 out of such 5 cases have features of early redemption of the convertible notes/bonds at the option of the issuer. The Directors have advised that such redemption terms are determined after arm's length negotiation between the Company and the Subscriber. As such, we concur with the Directors' view that such redemption terms are acceptable to the Company.

Interest rate

The Notes shall bear interest rate at 1% per annum above the Hong Kong prime rate on the date of issue of the Notes, payable at maturity, conversion or redemption of the Notes. As mentioned above, the Company will use the proceeds raised from the issue of the Notes to repay the bridging loans, which were borrowed by the Company from the Subscriber in October and November 2002 for the purpose of financing the general working capital of the Group. We note that the interest rate of the Notes is the same as that of the bridging loans. The Directors have advised that after considering the size of the fund raising and the interest rate of the existing unsecured bank overdraft of the Group as mentioned below, together with the unsecured debt financing nature of the Notes as mentioned below, the Directors are of the view that such interest rate is acceptable. We concur with the Directors' view in this respect.

As far as market comparables are concerned, we identified 5 cases of issue of convertible notes/bonds by companies listed on GEM in year 2002. Among the aforesaid 5 cases, we note that the interest rate of 4 cases of the convertible notes/bonds ranged from 1% per annum to 8% per annum and the interest rate of 1 case of the convertible note was 1% plus Hong Kong prime rate. Upon comparison, the interest rate of the Notes of 1% per annum above the Hong Kong

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prime rate (i.e. 6% per annum assuming the current Hong Kong prime rate of 5% remains unchanged on the date of issue of the Notes which is expected to be in January 2003) falls within the aforesaid range of interest rates. Based on the above, we consider that the interest rate of the Notes is acceptable.

As far as the cost of funding of the Company itself is concerned, the Directors have advised that the Group has an unsecured bank overdraft with interest rate of approximately 7.38% per annum. Upon comparison, the interest rate of the Notes of 1% per annum above the Hong Kong prime rate (i.e. 6% per annum assuming the current Hong Kong prime rate of 5% remains unchanged on the date of issue of the Notes which is expected to be in January 2003) is lower than the aforesaid interest rate of the unsecured bank overdraft of the Group.

Maturity date

The Notes has a 15-month term to maturity which means that the Company is obliged to redeem the Notes in full on the Maturity Date, unless previously converted into Shares. This implies that the Group shall be relieved of any imminent cashflow pressure to redeem the principal amount of HK\$7.8 million of the Notes and, as stated in the Letter, this will allow the Company greater flexibility in managing its financial arrangements. We concur with the Directors' view in this regard.

Security

Save for the unconditional and irrevocable personal guarantees to be given by Mr. Chang and Mr. Tsai, the Notes are not secured by any assets of the Group as indemnities, mortgages or surety for the obligation of the Company to repay the Notes. This arrangement is in the interests of the Company. It is also common for companies listed in Hong Kong to issue convertible notes on an unsecured basis in the market.

In overall, based on our analysis mentioned above, we are of the view that the terms of the Notes agreed between the Company and the Subscriber are on normal commercial terms (as defined in Chapter 20 of the GEM Listing Rules).

Possible dilution effect to the Independent Shareholders

The maximum number of Shares which may be issued upon full conversion of the Notes based on the initial Conversion Price of HK\$0.20 per Share is 39,000,000 Shares, representing approximately 6.78% and approximately 6.35% of the existing issued share capital and the enlarged issued share capital (assuming full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Share) of the Company respectively. Based on 575,382,456 Shares in issue as at the Latest Practicable Date and 39,000,000 Conversion Shares to be issued upon full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Share, the Independent Shareholders' interests in the Company would be diluted by approximately 6.35%. We consider such moderate impact of shareholding dilution to be acceptable. Notwithstanding such moderate impact of shareholding dilution, assuming full conversion of the Notes by the

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Subscriber, the Independent Shareholders should note that the shareholding interest of the Subscriber, being the single largest Shareholder, will be increased from approximately 24.99% of the existing issued share capital of the Company to approximately 29.75% of the issued share capital of the Company as enlarged by the issue of 39,000,000 Conversion Shares. Further, upon such dilution which must be incidental to the conversion of the Notes, there would be an enlargement in the capital base of the Company as mentioned above and an improvement in the gearing position of the Group as mentioned below.

Financial effects of the issue of the Notes on the Group

Net tangible asset value

As confirmed by the Directors, the effect on the consolidated net tangible asset value of the Group upon full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Share is set out as follows:

	<i>US\$ '000</i>	Per Share <i>US cents</i>
Unaudited consolidated net asset value of the Group as at 30th June, 2002 <i>(Note 1)</i>	2,288	
<i>Less:</i>		
Trademarks <i>(Note 1)</i>	(45)	
	2,243	
Unaudited consolidated net tangible asset value as at 30th June, 2002		
<i>Less:</i>		
Unaudited consolidated loss of the Group for the three months ended 30th September, 2002 <i>(Note 2)</i>	(510)	
<i>Add:</i>		
Net proceeds from the issue of 39,000,000 Shares at HK\$0.20 per Share in October 2002	974	
	2,707	
Pro forma adjusted unaudited consolidated net tangible asset value of the Group before the issue of the Notes		0.470 <i>(Note 3)</i>
<i>Less:</i>		
Estimate of expenses for the issue of the Notes	(38)	
<i>Add:</i>		
Issue and allotment of the Conversion Shares upon full conversion of the Notes	1,000	
	3,669	
Pro forma adjusted unaudited consolidated net tangible asset value of the Group assuming full conversion of the Notes		0.597 <i>(Note 4)</i>

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Notes:

1. Based on information disclosed in the unaudited half-yearly report of the Company for the six months ended 30th June, 2002.
2. Based on information disclosed in the unaudited third quarterly report of the Company for the nine months ended 30th September, 2002.
3. Based on 575,382,456 Shares in issue as at the Latest Practicable Date.
4. Based on 614,382,456 Shares in issue after full conversion of the Notes.

As illustrated above, the pro forma adjusted unaudited consolidated net tangible asset value of the Group would, upon full conversion of the Notes, experience a significant increase from approximately US\$2.71 million to approximately US\$3.67 million, representing an increase of approximately 35.4%. On a per share basis, the pro forma adjusted unaudited consolidated net tangible asset value per Share would be increased from approximately US0.470 cents to approximately US0.597 cents assuming full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Share, representing an increase of approximately 27.0%.

Earnings

Given that the Notes bear interest at 1% per annum above the Hong Kong prime rate and assuming the current Hong Kong prime rate of 5% remains unchanged on the date of issue of the Notes which is expected to be in January 2003, the interest rate of the Notes would be 6%. On the assumption that the interest rate of the Notes is 6%, the Company is obliged under the Subscription Agreement to pay an annual interest expense of a maximum amount of HK\$468,000 per annum to the Subscriber, unless the Notes are previously redeemed by the Company or converted into the Conversion Shares by the Subscriber. The interest expense of a maximum amount of HK\$468,000 per annum represent approximately 2.2% of the pro forma adjusted unaudited consolidated net tangible asset value of the Group before the issue of the Notes of approximately US\$2.71 million. Since the proceeds raised from the issue of the Notes will be used to repay the bridging loans and the interest rate of the bridging loans is also the same as that of the Notes as mentioned above, the interest expense arising from the Notes will be off-set by the interest saving from the repayment of the bridging loans. Therefore, the issue of the Notes would not create extra interest expense for the Group as compared with the position immediately before the issue of the Notes.

In order to analyse the dilution effect on the pro forma consolidated net loss per Share upon full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Share, we have based such analysis on the unaudited consolidated net loss attributable to Shareholders for the nine months ended 30th September, 2002 of approximately US\$4.55 million, 575,382,456 Shares in issue as at the Latest Practicable Date and 614,382,456 Shares in issue and to be issued upon full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Share.

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The unaudited consolidated net loss per Share for the nine months ended 30th September, 2002 was approximately US0.791 cents based on 575,382,456 Shares in issue as at the Latest Practicable Date. Immediately upon full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Share, the pro forma adjusted unaudited consolidated net loss per Share for the nine months ended 30th September, 2002 would be reduced by approximately US0.050 cents per Share to approximately US0.741 cents per Share, representing approximately 6.3% reduction.

Gearing

The Directors have confirmed that the gearing ratios of the Group before and after the issue of the Notes (assuming full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Share) are as follows:

	(I)	(II)	
	Unaudited total borrowings of the Group	Pro forma adjusted unaudited consolidated net tangible asset value of the Group	(I)/(II) Gearing ratio
	<i>(Note 1)</i>	<i>(Note 3)</i>	
	<i>(US\$ '000)</i>	<i>(US\$ '000)</i>	
Before the issue of the Notes <i>(Note 2)</i>	13,484	2,707	4.98
After the issue and allotment of the Conversion Shares upon full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Share	12,484	3,669	3.40

Notes:

1. The figures of total borrowings of the Group also include obligations under finance leases and other loans and are based on information disclosed in the half-yearly report of the Company for the six months ended 30th June, 2002.
2. The relevant figure takes account of the aggregate principal amount of the bridging loans of US\$1 million.
3. This is based on the pro forma adjusted unaudited consolidated net tangible asset value of the Group as set out in the sub-paragraph headed "Net tangible asset value" above.

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As set out in the above table, assuming full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Share, the gearing ratio of the Group would be reduced from approximately 4.98 to approximately 3.40. Hence, the issue and subsequent full conversion of the Notes would bring a positive effect on the gearing position of the Group. However, the Independent Shareholders should note that the gearing position of the Group may not be improved in the event that the Notes are fully repaid in cash on the Maturity Date without any conversion.

RECOMMENDATION

Having taken into account the abovementioned principal factors and reasons, we consider that, from a financial point of view, the terms of the Subscription Agreement and the Notes are fair and reasonable so far as the Independent Shareholders as a whole are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve, inter alia, the Subscription Agreement and the Notes.

Yours faithfully,

For and on behalf of

MasterLink Securities (Hong Kong) Corporation Limited

Jimmy Chan

Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Company in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under section 31 of, or part 1 of the schedule to, the SDI Ordinance), or which were required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which were required, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

- (a) Ordinary shares

Name	Number of Shares				
	Personal interest	Family interest	Corporate interest	Other interest	Total interest
TSAI Jenp Luh	99,305,288	218,400 <i>(note 1)</i>	–	–	99,523,688
CHANG Hsiao Hui	99,628,984	3,511,768 <i>(note 2)</i>	–	–	103,140,752
LIU Yuan Chang	7,354,528	–	–	–	7,354,528

Notes:

1. These Shares are held by Ms. TU Wen-Yueh, the wife of TSAI Jenp Luh.
2. These Shares are held by LIN Hwei-Lin, the wife of CHANG Hsiao Hui.

(b) Pursuant to the Pre-IPO Share Option Scheme and Share Option Scheme, the share options granted to and held by the Directors up to the Latest Practicable Date were as follows:

Name	Date of grant	Exercise price per Share	Exercise period	Number of Shares under options
TSAI Jenp Luh	27th December, 2001	0.70	8th July, 2002 to 20th December, 2011	1,144,000
	21st February, 2002	1.212	1st January, 2003 to 31st December, 2005	1,500,000
CHANG Hsiao Hui	27th December, 2001	0.70	8th July, 2002 to 20th December, 2011	1,609,000 (Note 1)
	21st February, 2002	1.212	1st January, 2003 to 31st December, 2005	1,580,000 (Note 2)
LIU Yuan Chang	27th December, 2001	0.70	8th July, 2002 to 20th December, 2011	520,000
	21st February, 2002	1.212	1st January, 2003 to 31st December, 2005	1,400,000

Notes:

- Options to subscribe for 1,136,000 Shares are granted to Mr. CHANG Hsiao Hui personally and options to subscribe for 473,000 Shares are granted to his spouse, Ms. LIN Huei Lin.
- Options to subscribe for 1,500,000 Shares are granted to Mr. CHANG Hsiao Hui personally and options to subscribe for 80,000 Shares are granted to his spouse, Ms. LIN Huei Lin.

3. INTERESTS IN CONTRACTS AND ASSETS

No contract or arrangement of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and/or in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date. As at the Latest Practicable Date, none of the Directors or MasterLink had any direct or indirect interest in any assets which had been, since 31st December, 2001, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

4. COMPETING INTERESTS

Mr. BUAY Kee Chuan was a director of Failsafe Corporation (Singapore) Pte Ltd, whose business includes provision of a full suite of services for disaster recovery and business continuity in Singapore. Mr. BUAY ceased to be a director of Failsafe Corporation (Singapore) Pte Ltd with effect from 28th November, 2002.

Mr. TAY Chek Khoon is a director of (i) Lanka Communication Services (Private) Limited, whose business is a data telecommunications provider of Internet services, international leased circuits, switch services, frame relay, international fax message, VSAT and facility management; and (ii) APT Satellite Telecommunications Limited, whose business is the provision of telecommunication network services including wholesale telecom services, VSAT services and International Pop Gateway and facility management for telecommunication equipment.

A summary of the details concerning the above directorships is set out on page 17 of the third quarterly report 2002 of the Company issued on 12th November, 2002.

As at the Latest Practicable Date, KA Land, a wholly owned subsidiary of SingTel was interested in 24.99% of the issued Shares of the Company. Assuming and after full conversion of the Notes at the initial Conversion Price of HK\$0.20 per Conversion Share, the shareholding interest of KA Land in the Company would be increased from approximately 24.99% to approximately 29.75% upon such full conversion of the Notes.

SingTel is one of Asia's leading communications companies and provides a comprehensive portfolio of services including voice and data services over fixed, wireless and Internet platforms which competes, or may compete, with the Group in the countries in which the Group operates. A summary of the competing businesses of SingTel is set out on pages 15 and 16 of third quarterly report 2002 of the Company issued on 12th November, 2002.

Save as disclosed above, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in any business which competes or may compete with the business of the Group.

5. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance (excluding those of the Directors or chief executive of the Company), the Company had been notified of the following interest of 10% or more of the issued share capital of the Company:

Name	Number of Shares
KA Land Pte Ltd. (a wholly owned subsidiary of SingTel)	143,802,864

Save as disclosed in paragraph 2 and this paragraph 5 above and other than any Shares registered under the name of HKSCC Nominees Limited, as at the Latest Practicable Date, the Company had not been notified of any other person who was interested in 10% or more of the issued share capital of the Company.

6. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against the Company or any other members of the Group.

7. NO MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, or in its quarterly report for the three months ended 30th September, 2002, the Directors are not aware of any material adverse change in the financial or trading position of the Group taken as a whole since 30th June, 2002, the date to which the latest half-yearly report of the Company was made up.

8. INDEPENDENT FINANCIAL ADVISER

MasterLink is an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the laws of Hong Kong). MasterLink has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they appear. As at the Latest Practicable Date, MasterLink had no shareholding in any member of the Group, and does not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. SERVICE CONTRACTS

Each of the executive Directors (namely TSAI Jenp Luh, CHANG Hsiao Hui and LIU Yuan Chang) has entered into a service contract with the Company for a period of three years commencing on 21st December, 2001. The term of each such service contract is continuous unless, after the expiry of the first year of service, terminated by not less than three months' prior notice in writing served by either party on the other or by payment of three months' salary in lieu of such notice.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had a service contract with the Company which was not determinable by the Company within one year without payment of compensation other than statutory compensation.

10. GENERAL

- (a) The Company is incorporated in the Cayman Islands and has an authorised share capital of HK\$8,000,000 divided into 800,000,000 shares of HK\$0.01 each, of which 575,382,456 Shares have been issued and are fully paid and are listed on the Stock Exchange.
- (b) The registered office of the Company is at 2nd Floor, Cayside, Harbour Drive, P.O. Box 30592, SMB, George Town, Grand Cayman, Cayman Islands, British West Indies and the head office and principal place of business of the Company is at Suites 2401-4, 24th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong.
- (c) The Qualified Accountant appointed under rule 5.10 of the GEM Listing Rules of the Company is Mr. LIU Chun Kin. Mr. LIU is an associate of the Hong Kong Society of Accountants.
- (d) The Compliance Officer of the Company appointed under rule 5.14 of the GEM Listing Rules is Mr. LIU Yuan Chang, an executive Director. Mr. LIU received a Master of Electronic Engineering degree from the Chun-Cheng Institute of Technology and Theory in Taiwan in 1988 and a Bachelor of Electronic Engineering degree from Chun-Yuan Christian University in Taiwan in 1986.
- (e) The Company Secretary of the Company is Mr. LIU Chun Kin. Mr. LIU is an associate of the Hong Kong Society of Accountants.
- (f) The Company has established an audit committee with terms of reference in compliance with rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee comprises three members, namely Mr. LEUNG Man Kit, Mr. CHOU Wen Pin and Mr. BUAY Kee Chuan. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

Mr. LEUNG Man Kit, Michael, an independent non-executive Director, is an investment banker with 25 years of experience in project finance and corporate finance. He has held senior positions with Peregrine Capital Limited, Crosby Securities (HK) Limited and Warburg Dillon Read. He has also represented AIG Asian Infrastructure Fund on the board of directors of its investee companies.

Mr. CHOU Wen Pin, Vincent, an independent non-executive Director, holds a bachelor's degree in architecture from California Polytechnic University, a master's degree in architecture from Cornell University and a master's degree in design in real estate development from Harvard University Design School, the United States. He is the chairman of DeliriumCyberTouch Corporation, an e-business solutions provider.

Mr. BUAY Kee Chuan, Andrew, a non-executive Director, holds a bachelor of arts degree from the National University of Singapore and a master of science degree in management from Stanford University, the United States. He is the chief executive officer of SingTel's Multimedia Group, the vice president for consumer marketing and serves as a director on the boards of various joint ventures of SingTel.

- (g) The English version of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business of the Company at Suites 2401-4, 24th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong during normal business hours on any Business Day from the date of this circular until (and including) 7th January, 2003:

- (a) the memorandum and articles of association of the Company;
- (b) the Subscription Agreement;
- (c) the Instrument;
- (d) the service contracts referred to in the section headed "Service contracts" of this appendix;
- (e) the written consent of MasterLink as referred to in paragraph 8 of this Appendix;
- (f) the letter from MasterLink to the Independent Board Committee as set out on pages 17 to 29 of this circular; and
- (g) the letter from the Independent Board Committee as set out on pages 15 to 16 of this circular.

NOTICE OF EXTRAORDINARY GENERAL MEETING



INFOSERVE TECHNOLOGY CORP.

英普達資訊科技公司*

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Infoserve Technology Corp. (the “**Company**”) will be held at Suites 2401-4, 24th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong on 7th January, 2003 at 11:30 a.m. for the purpose of considering and, if thought fit, passing the following resolution, which will be proposed as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT**

- (1) the creation and issue to KA Land Pte Ltd. (“**KA Land**”) of an aggregate principal amount of HK\$7,800,000 convertible notes (the “**Notes**”) convertible into new ordinary shares of nominal value of HK\$0.01 each in the capital of the Company (“**Shares**”) at the initial conversion price (which conversion price is subject to adjustment upon the occurrence of certain events as specified in the Instrument (as defined below)) of HK\$0.20 per Share in accordance with the terms and conditions contained in a conditional subscription agreement dated 29th November, 2002 (the “**Subscription Agreement**”) entered into between the Company, KA Land and Michael Chang Hsiao Hui and Phil Tsai Jenp Luh, a copy of which has been produced to the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification and subject to the terms and conditions contained in the form of the instrument constituting the Notes (the “**Instrument**”), a copy of which has been produced to the meeting and marked “B” and initialled by the chairman of the meeting for the purpose of identification;
- (2) after the creation and issue of the Notes and upon due exercise from time to time of the conversion rights attached to the Notes, the allotment and issue of Shares pursuant to and in accordance with the terms and conditions of the Instrument and the Notes; and
- (3) the entering into by the Company of the Subscription Agreement and the execution by the Company of the Instrument,

be and are hereby approved, confirmed and ratified **AND THAT** any director of the Company or the directors of the Company (the “**Directors**”) acting together or by committee be and are hereby authorised to do on behalf of the Company whatever such

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

Director or Directors (as the case may be) may, in his, her or their (as the case may be) absolute discretion, consider necessary, desirable or expedient for the purposes of, or in connection with, the performance and implementation by the Company of the Subscription Agreement, the Instrument and the creation and issue of the Notes and the allotment and issue of Shares pursuant to the terms of the Instrument and the Notes or any other documents relating thereto or contemplated thereby (in each case amended if necessary) and to make or agree such alterations, amendments and additions thereto as any Director or the Directors (as the case may be) may, in his, her or their (as the case may be) absolute discretion, consider necessary, desirable or expedient.”

By Order of the board of
Infoserve Technology Corp.
TSAI Jenp Luh
Chairman

Hong Kong, 20th December, 2002

Principal Office in Hong Kong:

Suites 2401-4

24th Floor

Dah Sing Financial Centre

108 Gloucester Road

Wanchai

Hong Kong