INFOSERVE TECHNOLOGY CORP.

英 普 達 資 訊 科 技 公 司 *

(Incorporated in the Cayman Islands with limited liability)

RESULTS ANNOUNCEMENT
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2002

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This announcement, for which the directors (the "Directors") of Infoserve Technology Corp. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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 believes: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of Infoserve Technology Corp. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2002 together with the comparative audited figures for the corresponding period 2001 are as follow:

	Notes	**2002**	2001
		US$'000	*US$'000*
Turnover		**24,310**	26,445
Other operating income		**125**	538
Network operation and telecommunication costs		**(12,672)**	(22,091)
Staff costs		**(6,833)**	(12,172)
Depreciation and amortisation of property, plant and equipment		**(2,414)**	(3,026)
Operating lease rentals in respect of machinery and equipment		**(3,577)**	(3,912)
Occupancy expenses		**(2,709)**	(3,406)
Prepaid network capacity written off		**(1,531)**	–
Provision for early termination of tenancies		**(366)**	(2,333)
Other operating expenses		**(2,282)**	(6,891)
Loss from operations		**(7,949)**	(26,848)
Finance costs		**(681)**	(665)
Loss before taxation		**(8,630)**	(27,513)
Taxation	*3*	**(1)**	(13)
Net loss attributable to shareholders		**(8,631)**	(27,526)
Loss per share – Basic	*4*	**(1.59) cents**	(5.83) cents

Notes:

1. Basis of preparation of financial statements

In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of US$7,295,000 and net liabilities of US$1,582,000 as at 31 December 2002.

From an operating perspective in fourth quarter of 2002, the Group significantly curtailed its operations in USA and Japan which had been incurring losses. In terms of financing the Group's activities, certain of the Company's substantial shareholders continue to actively provide financial support to the Group. The Group's credit facilities are guaranteed by two substantial shareholders. In November 2002, these two substantial shareholders additionally provided guarantees to another substantial shareholder KA Land Pte. Ltd. in connection with its subscription for convertible notes in the sum of HK$7,800,000 (equivalent to US$1,000,000). Furthermore, these two substantial shareholders have agreed to provide the Group with sufficient funding to enable it to meet in full its financial obligation for the next twelve months. Accordingly, the financial statements have been prepared on a going concern basis.

2. Business and geographical segments

Business segments

For management purposes, the Group's operations are organised into three operating divisions, namely communication services, Internet access services, and virtual private network ("VPN") and solution services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Communication services	–	provision of voice, facsimile and other basic communication services
Internet access services	–	provision of Internet access, data centre and data centre-related services
VPN and solution services	–	provision of VPN and solution services

Business segments for the year are as follows:

	2002		2001	
	Turnover	**Results**	Turnover	Results
	US$'000	***US$'000***	*US$'000*	*US$'000*
Communication services	**9,452**	**390**	12,261	(3,665)
Internet access services	**8,919**	**3,462**	13,175	(3,858)
VPN and solution services	**5,939**	**1,753**	1,009	(295)
	24,310	**5,605**	26,445	(7,818)
Other operating income		**125**		538
Unallocated operating expenses		**(13,679)**		(19,568)
Loss from operations		**(7,949)**		(26,848)
Finance costs		**(681)**		(665)
Loss before taxation		**(8,630)**		(27,513)
Taxation		**1**		(13)
Net loss attributable to shareholders		**(8,631)**		(27,526)

Geographical segments

The Group's operations are located in Taiwan, United State of America ("USA") and other areas. The following table provides an analysis of the Group's geographical operation segment information:

	Turnover	
	2002	2001
	US$'000	*US$'000*
Taiwan	**22,475**	22,744
USA	**653**	2,809
Others	**1,182**	892
	24,310	26,445

3. Taxation

No provision for taxation has been made in the financial statements as the Group had no assessable profit for the year. The charge for the year represents underprovision of Taiwan corporate income tax in prior years.

4. Loss per share

The calculation of the basic loss per share is based on the net loss attributable to shareholders of US$8,631,000 (2001: US$27,526,000) and the weighted average number of 543,079,141 shares (2001: 472,103,456 shares after adjusting the effect of the redenomination of shares made by the Company) in issue during the year.

The computation of diluted loss per share does not assume the exercise of outstanding warrants and share options as the effect of the potential shares outstanding during the year were anti-dilutive.

5. Consolidated statement of changes in equity

	Share capital	Share premium	Translation reserve	Deficit	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1 January 2001	590	48,319	(292)	(19,034)	29,583
Issue of shares	605	(15)	–	–	590
Cancellation of shares	(590)	–	–	–	(590)
Exchange differences arising from translation of financial statements of overseas operations not recognised in the income statement	–	–	15	–	15
Net loss attributable to shareholders	–	–	–	(27,526)	(27,526)
At 31 December 2001	605	48,304	(277)	(46,560)	2,072
Issue of shares	133	7,395	–	–	7,528
Expenses incurred in connection with the issue of shares	–	(2,332)	–	–	(2,332)
Exchange differences arising from translation of financial statements of overseas operations not recognised in the income statement	–	–	(219)	–	(219)
Net loss attributable to shareholders	–	–	–	(8,631)	(8,631)
At 31 December 2002	738	53,367	(496)	(55,191)	(1,582)

6. Dividend

The Directors do not recommend the payment of a dividend (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

TURNOVER

For the year ended 31 December 2002, total turnover amounted to US$24,310,000, representing a decrease of 8% as compared to US$26,445,000 for 2001.

Total turnover of the Group are detailed as follows:

	Year ended 31 December,		
	2002	2001	**Change**
	US$'000	*US$'000*	*%*
Communication services	**9,452**	12,261	-23%
Internet access and related services	**8,919**	13,175	-32%
VPN and solution services	**5,939**	1,009	+489%
	24,310	26,445	-8%

Revenue from communication services experienced a decrease of 23% to US$9,452,000 in 2002. The decline in revenue was mainly due to intensive pricing competition in Taiwan communication market and diminishing of total traffic minutes. Revenue from Internet access and related services was also recorded a drop of 32% from US$13,175,000 to US$8,919,000 in 2002. The drop of revenue from this business segment was mainly due to the decrease in revenue from T1/T3 high-speed leased line services from US$7,898,000 in 2001 to US$ 4,459,000 in 2002 and the decrease in revenue from 56K modem dial-up services from US$2,446,000 in 2001 to US$ 1,151,000 in 2002. Such decrease in revenue was partly compensated by the increase in revenue from ADSL broadband services from US$1,878,000 in 2001 to US$2,754,000 in 2002. For VPN and solution services, as identified by the Group as high growth market, the Group continued to record a steady revenue growth throughout the year, from US$800,000 in the first quarter of 2002 to US$2,203,000 in the fourth quarter of 2002. Revenue from VPN and other solution services increased by 5 folds from US$1,009,000 in 2001 to US$ 5,939,000 in 2002. Total number of IP VPN connections increased to approximately 1,200 by end of 2002.

NETWORK OPERATION AND TELECOMMUNICATION COST

For the year ended 31 December 2002, network operation and telecommunication costs amounted to US$12,672,000, representing a decrease of 43% as compared to US$22,091,000 for 2001.

Network operation and telecommunication costs are detailed as follows:

	Year ended 31 December,		
	2002	2001	**Change**
	US$'000	*US$'000*	*%*
Access	**3,403**	6,300	-46%
Bandwidth	**2,848**	8,836	-68%
Termination	**5,495**	6,186	-11%
Others	**926**	769	+20%
	12,672	22,091	-43%

Access cost decreased by 46% from US$6,300,000 to US$3,403,000 in 2002. The reduction in access cost was mainly attributable to the termination of low usage fixed access circuits and reduction in suppliers' purchase price of Internet access services during the year. The Group recorded a significant savings in bandwidth cost, which decreased by 68% to US$2,848,000 in 2002. The savings in bandwidth cost was mainly due to (i) the replacement of the Group's major international circuits previously on short-term lease basis by a more cost-effective international bandwidth on long-term (15 years) lease basis since late 2001 and (ii) the general drop in global bandwidth price during the year. Termination cost also recorded a decrease of 11% to US$5,495,000 in 2002. The decrease was due to the decline in total traffic minutes as a result of the downscale of the Group's business operation in the United States and in Japan (Infoserve-USA and Infoserve-Japan were mainly engaged in the provision of communication services to enterprises in the United States and Japan respectively; in view of their unsatisfactory performance over the past two years and the persistent negative sentiment in the telecom sector in the United States and in Japan, the Group has substantially downscale the business operations of Infoserve-USA and Infoserve-Japan at the beginning of the fourth quarter of 2002) and decrease in unit purchase price from suppliers. Other cost increased by 20% to US$926,000 in 2002. Other cost mainly comprised of setup cost and hardware cost. The increase in other costs resulted from the significant increase of VPN customers during the year.

OPERATING EXPENSES

Total operating expenses were US$ 19,712,000 for 2002 (2001: US$31,740,000), representing a decrease of 38% compared to 2001. Total staff costs for 2002 amounted to US$6,833,000 (2001: US$12,172,000), representing a decrease of 44%. During 2002, certain sales personnel who were previously engaged in communication services and Internet access and related services were either laid off or assigned to VPN and solution services. Staff number was decreased from 388 as at 31 December 2001 to 255 as at 31 December 2002. The reduction in headcount was in line with the change of the Group's sales strategy from direct sales to channel sales for its communication services and Internet access services since 2001. The reduction in headcount was also attributable to the substantial downscale of the Group's business operations in the United States and in Japan since the beginning of the fourth quarter of 2002. Occupancy expenses amounted to US$2,709,000 (2001:US$3,406,000), representing a decrease by 20% comparing to 2001. The decrease resulted from the scale down of certain under-utilized offices and closure of certain remote sales offices in Taiwan (previously required for the direct selling of communication services and Internet access services) since late 2001. Provision for early termination of tenancies amounted to US$366,000 in 2002 (2001: US$2,333,000). During 2002, the Group continued to focus on developing the VPN business in the Greater China market. The provision in 2002 represents one-time, non-recurring losses such as penalty for early termination of office lease agreements and impairment loss on the relevant assets like leasehold improvement due to the substantial downscale of business operations of Infoserve-US and Infoserve-Japan. The Group's prepaid network capacity represents international bandwidth capacity on an indefeasible right of use basis. During the year, the Directors conducted a review based on the Group's current utilization of prepaid network capacity and determined not to settle the remaining balance in respect of two of the capacity purchases. Accordingly, the respective services were terminated by the vendor resulting in the write-off of the remaining prepaid network capacity amounting to US$1,531,000. In view of the one-off nature of the above provisions and write downs, the Directors believe that no further material provisions and write downs would be made in the coming year.

NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

Net loss attributable to shareholders for the year ended 31 December 2002 narrowed by 69 % to US$8,631,000 from US$27,526,000. It was mainly due to the significant improvement in gross profit margin and savings in operating expenses.

BUSINESS PROSPECT

The Group's objective is to become one of the leading IP VPN and IT solutions service providers in the Greater China region. The market for IP VPN services in Greater China is gaining momentum, with increasing enterprises in the region migrating mission-critical applications and services to an IP VPN platform; and more service providers are launching IP VPN service offerings. However, the market potential has been dampened somewhat by the impact of the global economic slowdown on economies in the region, particularly in Taiwan and Hong Kong. In addition, as more service providers rush to enter the market, IP VPN pricing will be competitive.

Research house IDC forecasts that Greater China (i.e. China, Hong Kong and Taiwan) IP VPN revenue, which was worth US$73 million in 2001, will soar to US$683 million in 2006, representing a CAGR (compound annual growth rate) of 56%. In terms of connections, the IP VPN market in Greater China is expected to rise from 10,824 IP VPN connections in 2001 to 202,979 IP VPN connections in 2006, representing a CAGR of 80% over the forecast period.

The turbulent telecom market characterized by over-supply and devaluation of bandwidth and Internet access led the Group to even more focus on bundling more value-added services and developing sound migration strategy for mission-critical applications and IT/SI solution services based on an IP VPN platform.

The Group's strategy to continually upgrade service capability by embarking on new service extension initiatives, such as the launch of Managed Firewall Service in May 2002, and Management Services (including network performance and security management) in December 2002 was based on the belief that over 90% of the mainstream MPLS-based IP VPN customers are medium to large corporations in the stage of rapid growth with stronger demands on video conference, ERP and other applications. These value-added services will become essential tools for the Group in improving relationships with customers and a platform for up-selling or cross-selling services to generate further revenues.

In the wake of the war between the USA and Iraq, the 2003 outlook for the economic recovery is not much more promising with predictably mixed views. Based on the existing time-proven business model, the Group is optimistic in continuing to achieve reasonable organic revenue growth.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group generally finances its operations with internally generated cash flows, bank loans, finance leases, and proceeds from issuance of new shares and loans from a substantial shareholder.

It is the Group's policy for each operating entity to borrow in local currencies, where possible, to minimize currency risk. As at 31 December 2002, the Group had available banking facilities of approximately US$12,609,000 (2001: US$7,220,000) for bank overdrafts and loan financing and the unused banking facilities amounted to approximately US$2,873,000 (2001: US$300,000). As at 31 December 2002, the Group had bank overdrafts, short-term bank loans and long-term bank loans amounted to US$500,000 (2001: US$119,000), US$5,871,000 (2001: US$3,024,000) and US$3,365,000 (2001: US$3,801,000) respectively. All bank loans were denominated in New Taiwan dollars. Interest rates ranged from 2.61% to 7.61% (2001: 5.00% to 8.12%). During the year, the Group rolled over short-term bank loans of approximately US$3,018,000, representing 96% of the total short-term bank loans and bank overdrafts outstanding as at 31 December 2001. In view of the continuing improvement in operating results, the directors are confident that the Group will be able to rollover the majority of its short-term bank loans upon maturity in 2003. As at 31 December 2002, the Group had loans from a substantial shareholder of US$1,000,000 (2001: nil). The loans were repaid by issuance of 15-months convertible notes in January 2003.

As at 31 December 2002, the Group had a cash and bank deposit balance of US$74,000 (2001: US$413,000). Approximately US$9,000 (2001: US$54,000), US$20,000 (2001: US$6,000), US$7,000 (2001: US$9,000), US$19,000 (2001: US$63,000), and US$15,000 (2001: US$10,000) of the Group's cash and bank deposits were denominated in New Taiwan dollars, Hong Kong dollars, Japanese Yen, Renminbi and Singapore dollars, respectively. The remaining cash and bank deposits of approximately US$4,000 (2001: US$271,000) were denominated in United States dollars.

GEARING RATIO

As at 31 December 2001, the gearing ratio of the Group calculated as a ratio of total long-term borrowings (including obligations under finance lease due after one year, long-term bank loans and advances from directors) to shareholders' equity was 1.4. As at 31 December 2002, as the shareholders' equity was negative, no gearing ratio is provided.

CAPITAL STRUCTURE

The following changes in the issued share capital of the Company took place during the year:

(a) Pursuant to the placing and underwriting agreement dated 4 January 2002, the Company offered 64,200,000 new ordinary shares for subscription at a price of HK$0.79 per share.

(b) In July 2002, 79,000 share options were exercised at a subscription price of HK$0.70 per share, resulting in the issue of 79,000 ordinary shares of HK$0.01 each in the Company.

(c) In October 2002, the Company issued and allotted 39,000,000 ordinary shares of HK$0.01 each in the Company to a director, 5 management shareholders and 17 employees of the Group at HK$0.20 per share, representing a discount of approximately 4.76% to the closing price of HK$0.21 per share as quoted on the Stock Exchange on 16 September 2002 (being the date of the announcement of the subscription). The net proceeds from this subscription amounting to US$974,000 were used as to US$800,000 for settlement of trade and other payables, US$100,000 for the repayment of bank loans and bank overdrafts and US$74,000 as general working capital. These shares were approved for issuance pursuant to an ordinary resolution passed by the Company's shareholders in an extraordinary general meeting held on 21 October 2002.

All the ordinary shares issued during the year rank pari passu with the then existing ordinary shares in all respects.

CHARGES ON GROUP ASSETS

Certain of the Group's assets are pledged to banks as security for bank loan facilities granted to the Group. As at 31 December 2002, approximately US$2,989,000 (2001: US$870,000) of bank deposits and US$3,659,000 (2001: US$3,660,000) of fixed assets were pledged to banks as security for bank facilities granted to the Group.

FOREIGN EXCHANGE EXPOSURE

It is the Group's policy for each operating entity to borrow in local currencies, where possible, to minimize currency risk. As at 31 December 2001 and 2002, the Group had no outstanding hedging instruments.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, the Group had 255 employees (2001: 388 employees). Employees are remunerated according to their performance and working experience. Staff benefits include participation in pension schemes and medical insurance. Share options may be granted to employees based on performance valuation in order to provide incentive and reward to them.

CONTINGENT LIABILITIES

As at 31 December 2002, the Group had no material contingent liabilities (2001: nil).

MATERIAL ACQUISITION AND DISPOSAL

No material acquisition or disposal of subsidiary or affiliated company was made during the year ended 31 December 2002.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

The Group will continue to focus on developing the IP VPN business in the Greater China market in the coming year. In accordance with business objectives stated in the Prospectus, the Group will continue to identify strategic investment opportunities in the PRC if the regulatory environment allows. Funding of such opportunities is expected to be made through arrangement of new banking facilities and internally generated fund.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the "Board Practices and Procedures" as set out in Rules 5.28 to 5.39 of the GEM Listing Rules during the year.

By order of the Board
Infoserve Technology Corp.
Tsai Jenp Luh
Chairman

Hong Kong, 25 March 2003

This announcement will remain on the GEM website at www.hkgem.com on the "Latest Company Announcement" page for at least seven days from the date of its posting and on .the website of the Company at www.infoserve-group.com.

* *For identification purpose only*