



INFOSERVE TECHNOLOGY CORP.

英普達資訊科技公司*

(Incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 31 MARCH 2003

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (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 future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the 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.

The Stock Exchange takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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.

* For identification purpose only

HIGHLIGHTS

- **Turnover for the three months ended 31 March 2003 amounted to US\$5,770,000, represented an increase of 5.0% over the corresponding period of US\$5,497,000 in 2002.**
- **Net loss attributable to shareholders for the three months ended 31 March 2003 narrowed by 40.7% to US\$1,784,000 from US\$3,008,000 of the corresponding period in 2002.**
- **Basic loss per share for the three months ended 31 March 2003 was 0.31 US cents, represents an approximately 45.6% decrease over the corresponding period of 0.57 US cents in 2002.**
- **The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2003.**

UNAUDITED CONSOLIDATED RESULTS

The board (the “Board”) of directors (the “Directors”) of Infoserve Technology Corp. (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2003 together with the unaudited comparative figures for the corresponding period in 2002, as follows:

		1.1.2003	1.1.2002
		to	to
		31.3.2003	31.3.2002
		US\$’000	US\$’000
	<i>Notes</i>	(Unaudited)	(Unaudited)
Turnover	3	5,770	5,497
Other operating income		79	7
Network operation and telecommunication costs		(3,479)	(3,523)
Staff costs		(1,541)	(2,096)
Depreciation and amortisation of property, plant and equipment		(552)	(633)
Operating lease rentals in respect of machinery and equipment		(632)	(954)
Occupancy expenses		(325)	(678)
Provision for early termination of tenancies		(68)	–
Other operating expenses		(862)	(475)
Loss from operations		(1,610)	(2,855)
Finance costs		(174)	(153)
Net loss attributable to shareholders		<u>(1,784)</u>	<u>(3,008)</u>
Loss per share – Basic	5	<u>(0.31) cents</u>	<u>(0.57) cents</u>

Notes:

1. BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands as an exempted limited liability company with its shares listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The condensed consolidated income statement and condensed consolidated statement of changes in equity and notes thereto (the “Quarterly Financial Information”) have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”).

In preparing the Quarterly Financial Information, the directors have given careful consideration to the future liquidity of the Group. The Company’s two substantial shareholders have agreed to provide the Group with sufficient funding to enable it to meet in full its financial obligations for the next twelve months. Accordingly, the Quarterly Financial Information has been prepared on a going concern basis.

2. ACCOUNTING POLICIES

The Quarterly Financial Information has been prepared under the historical cost convention. The accounting policies adopted in preparing the Quarterly Financial Information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2002. In applying such accounting policies in the preparation of the Quarterly Financial Information, greater use has been made of estimation methods than in the preparation of the annual financial statements.

3. TURNOVER

	1.1.2003	1.1.2002
	to	to
	31.3.2003	31.3.2002
	US\$’000	US\$’000
Turnover		
– communication services	2,430	2,489
– Internet access services	1,432	2,120
– virtual private network (“VPN”) and solution services	1,908	888
	5,770	5,497

4. TAXATION

No provision for taxation has been made as the Group had no assessable profit for the period.

5. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders of US\$1,784,000 (2002: US\$3,008,000) and the weighted average number of 575,382,456 (2002: 531,310,123) shares in issue during the period.

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 period were anti-dilutive.

6. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>US\$ '000</i>	Share premium <i>US\$ '000</i>	Translation reserve <i>US\$ '000</i>	Deficit <i>US\$ '000</i>	Total <i>US\$ '000</i>
At 1 January 2002	605	48,304	(277)	(46,560)	2,072
Issue of shares	83	6,437	–	–	6,520
Expenses incurred in connection with the issue of shares	–	(2,242)	–	–	(2,242)
Exchange differences arising from translation of financial statements of overseas operations not recognised in the income statement	–	–	57	–	57
Net loss attributable to shareholders	–	–	–	(3,008)	(3,008)
At 31 March 2002	<u>688</u>	<u>52,499</u>	<u>(220)</u>	<u>(49,568)</u>	<u>3,399</u>
At 1 January 2003	738	53,367	(496)	(55,191)	(1,582)
Exchange differences arising from translation of financial statements of overseas operations not recognised in the income statement	–	–	(11)	–	(11)
Net loss attributable to shareholders	–	–	–	(1,784)	(1,784)
At 31 March 2003	<u>738</u>	<u>53,367</u>	<u>(507)</u>	<u>(56,975)</u>	<u>(3,377)</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2003 (2002: Nil).

FINANCIAL REVIEW

Comparing overall financial performance for the three months ended 31 March 2003 to the same period last year, turnover of the Group amounted to US\$5,770,000, increased moderately by 5.0% from US\$5,497,000. Net loss narrowed markedly by 40.7% from US\$3,008,000 to US\$1,784,000. The improvement in operating results was mainly attributable to continual growth in revenue from the business segment of VPN and solution services and continual cost savings in operating expenses.

1. Turnover

Revenue from communication services has dropped by approximately 2.4% from US\$2,489,000 in the first quarter of 2002 to US\$2,430,000 in the first quarter in 2003. The drop of revenue from communication services was mainly attributable to the scale down of the Group's business operations in the United States and Japan since the fourth quarter in 2002. Revenue from Internet access and related services experienced a decrease of 32.5% from US\$2,120,000 of last corresponding period to US\$1,432,000. The decrease was mainly driven by significant drop of revenue from T1/T3 high-speed leased line services and ADSL/DSL services due to the persistent stiff competition in Taiwan's Internet market in the first quarter of 2003. For VPN and solution services, the Group has recorded 114.9% increase from US\$888,000 to US\$1,908,000. The increase was mainly due to the continual growth in customer base for IP VPN services, from approximately 170 customers as of 31 March 2002 to over 270 customers as of 31 March 2003.

2. Staff costs

For the three months ended 31 March 2003, total staff costs amounted to US\$1,541,000, which represented 26.5% decrease comparing with US\$2,096,000 of last corresponding period. Staff number decreased from 301 as at 31 March 2002 to 235 as at 31 March 2003. The reduction in headcount was mainly due to the scale down of the Group's business operations in the United States and Japan since the fourth quarter of 2002 and also the natural attrition of headcount in other locations.

3. Occupancy expenses

For the three months ended 31 March 2003, total occupancy expenses amounted to US\$325,000, representing a decrease by 52.1% compared to the corresponding period in 2002. The reduction in occupancy expenses was mainly due to the substantial scale down of the Group's business operations in the United States and Japan since the fourth quarter of 2002 and also the relocations of the Group's office premises in Hong Kong and Taiwan during 2002, which resulted in lower rental costs.

4. Other operating expenses

Other operating expenses included mainly bad debt expenses, legal and professional fees, traveling and other miscellaneous office expenses. In the first quarter of 2003, the Group recorded bad debt expenses of approximately US\$320,000, representing an increase of approximately 5 folds comparing to the first quarter in 2002. The sharp increase in bad debt expenses reflected the persistently weak economic environment in Taiwan during the period. The Group is implementing more prudent credit control measures with the goal to reduce bad debt expenses to the lowest level.

BUSINESS REVIEW

During the first quarter ended 31 March 2003, the Group continued to focus on its core business operations, which include the provision of communication services, Internet access services, and VPN and solution services to corporate users. The Group charges its customers either a fixed monthly service fee (like most Internet access services) or a service fee based on usage (like most communication services) or a combination of both (like VPN and solution services), depending on the type of services provided. Therefore, the Group's revenue (particularly communication services which is purely based on usage) is somehow dependent on the number of business days in the Greater China region because a substantial portion of the Group's existing customers is principally located in the region. As such, the Group's first quarter results are generally less attractive than the other quarters in a year because of the effect of Chinese New Year during the first quarter. For the first quarter ended 31 March 2003, the Group's revenue was down only marginally by 1.4% on a quarter-on-quarter basis compared with the fourth quarter of 2002 but slightly higher by 5.0% than it reported for the first quarter in 2002.

In the first quarter, the economy was facing two major headwinds: Iraq War and Severe Acute Respiratory Syndrome ("SARS"). Both create economic uncertainty and impact the IT spending budget of enterprises in the region. Therefore, the Group's revenue in the first quarter was largely driven by recurring revenue from existing customers rather than additional business from either existing or new customers.

BUSINESS PROSPECT

The quick ending of Iraq War improved market sentiment and so has a positive impact on the overall economy and favor the IT market. However, with major events being cancelled and SARS related deaths, Taipei has joined the SARS panic that has hit Hong Kong, Beijing and other cities. The various economic sectors are certainly linked to each other, hence impacts on the retail, travel, tourism, entertainment and events businesses due to SARS will have an impact on the overall economy and consequently on the IT market.

Overall, business transactions in the Greater China region will be impacted as companies curtail business travel. On one hand, SARS may negatively impact IT spending of the Group's existing or potential customers, and hence the Group's revenue growth opportunities. On the other hand, SARS may encourage sales opportunities of video-conference services through IP VPN to potential new customers and the Group's existing customers who have not yet using the services. However, how positive or negative impact of the SARS crisis on the Group's business depends on how long the virus will spread. If the SARS virus continues to spread through the third quarter of this year, it may smother foreign investment in the Greater China and so may inhibit the Group's business growth in the Greater China.

In addition, the Group expects another wave of drastic retail price reduction in the second and third quarter of this year for IDD and Internet access services led by the fixed network operators in Taiwan, which will not favor the Group's communication and Internet access business.

Despite these challenges, the Group's management is optimistic on the long-term growth opportunities in the business segment of IP VPN and solution services. Any service provider who is able to provide high quality connectivity and responsive IP VPN service management at low cost and with multiple implementation options will stand to gain significant market shares in the future. The Group will continue to seek improvement in the area of service provisioning, client management and satisfaction in order to expand its market share of IP VPN business in the Greater China region.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 March 2003, the interests of the Directors and their associates in the ordinary shares of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") as recorded in the register required to be kept by the Company under section 29 of the SDI Ordinance or as required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Personal Interest	Family Interest	Corporate Interest	Other Interest	Total
Mr. Tsai Jenp Luh	99,305,288	218,400 <i>(Note 1)</i>	–	–	99,523,688
Mr. Chang Hsiao Hui	99,628,984	3,511,768 <i>(Note 2)</i>	–	–	103,140,752
Mr. Liu Yuan Chang	7,354,528	–	–	–	7,354,528

Notes:

1. These shares are held by Ms. Tu Wen Yueh, the spouse of Mr. Tsai Jenp Luh, an executive director of the Company.
2. These shares are held by Ms. Lin Huei Lin, the spouse of Mr. Chang Hsiao Hui, an executive director of the Company.

Save as disclosed above, as at 31 March 2003, none of the Directors or their associates had any personal, family, corporate or other interests in the issued share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance).

SHARE OPTION SCHEMES

As at 31 March 2003, the Company had two share option schemes, namely the Pre-IPO Share Option Scheme and the Share Option Scheme (both terms as defined in the prospectus of the Company dated 28 December 2001 (the "Prospectus")).

The summary on the particulars of each of the Pre-IPO Share Option Scheme and the Share Option Scheme is set out in Appendix V of the Prospectus under the section headed "SHARE OPTIONS".

(1) Pre-IPO Share Option Scheme

Details of the options granted by the Company to the Directors under the Pre-IPO Share Option Scheme are as follows:

Name of Director	Date of grant	Vesting period of share options	Exercise period of share options	Exercise price per share <i>HK\$</i>	Balance as at 1 January 2003	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 31 March 2003
Mr. Tsai Jenp Luh	27 December 2001	8 July 2002 to 1 January 2004	8 July 2002 to 20 December 2011	0.70	1,144,000	-	-	-	1,144,000
Mr. Chang Hsiao Hui	27 December 2001	8 July 2002 to 1 January 2004	8 July 2002 to 20 December 2011	0.70	1,609,000 <i>(Note)</i>	-	-	-	1,609,000
Mr. Liu Yuan Chang	27 December 2001	8 July 2002 to 1 January 2004	8 July 2002 to 20 December 2011	0.70	520,000	-	-	-	520,000

Note: 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. Mr. Chang is deemed to be interested in his spouse's share options under the SDI Ordinance.

(2) Share Option Scheme

Details of the options granted by the Company to the Directors under the Share Option Scheme are as follows:

Name of Director	Date of grant	Vesting period of share options	Exercise period of share options	Exercise price per share <i>HK\$</i>	Balance as at 1 January 2003	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 31 March 2003
Mr. Tsai Jenp Luh	21 February 2002	1 January 2003 to 1 January 2005	1 January 2003 to 31 December 2005	1.212	1,500,000	-	-	-	1,500,000
Mr. Chang Hsiao Hui	21 February 2002	1 January 2003 to 1 January 2005	1 January 2003 to 31 December 2005	1.212	1,580,000 <i>(Note)</i>	-	-	-	1,580,000
Mr. Liu Yuan Chang	21 February 2002	1 January 2003 to 1 January 2005	1 January 2003 to 31 December 2005	1.212	1,400,000	-	-	-	1,400,000

Note: 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. Mr. Chang is deemed to be interested in his spouse's share options under the SDI Ordinance.

DIRECTORS' RIGHTS TO PURCHASE SHARE OR DEBENTURES

Except for the share option schemes, neither the Company nor its subsidiaries was a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of the Company or any other body corporate, and none of the Directors of the Company or their spouses or children under age of 18 had any right to subscribe for the securities of the Company or had exercised any such right.

SUBSTANTIAL SHAREHOLDER

As at 31 March 2003, holders of over 10% of the Company's shares were as follows:

Name	Number of shares	Approximate percentage of shareholding
KA Land Pte Ltd. <i>(Note 1)</i>	143,802,864	24.99%
Mr. Tsai Jenp Luh <i>(Note 2)</i>	99,523,688	17.30%
Mr. Chang Hsiao Hui <i>(Note 3)</i>	103,140,752	17.93%

Notes:

1. KA Land Pte Ltd. is a wholly-owned subsidiary of Singapore Telecommunications Limited.
2. 99,305,288 shares were held by Mr. Tsai Jenp Luh personally and 218,400 shares were held by his spouse, Ms. Tu Wen Yueh. Mr. Tsai Jenp Luh was deemed to be interested in his spouse's shares under SDI Ordinance.
3. 99,628,984 shares were held by Mr. Chang Hsiao Hui personally and 3,511,768 shares were held by his spouse, Ms. Lin Huei Lin. Mr. Chang Hsiao Hui was deemed to be interested in his spouse's shares under SDI Ordinance.

Save as disclosed above, the Company is not aware of any other interests required to be disclosed by the Company pursuant to section 16(1) of the SDI Ordinance as at 31 March 2003.

SPONSOR'S INTERESTS

Somerley Limited ("Somerley") has been appointed as sponsor of the Company for the period from 16 June 2002 to 31 December 2004 in return for a monthly advisory fee. As updated and notified by Somerley, none of Somerley, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 13 May 2003.

Save as disclosed above, Somerley had no other interest in the Company as at 13 May 2003.

COMPETING INTERESTS

Singapore Telecommunications Limited is an initial management shareholder of the Company and through its wholly owned subsidiary, KA Land Pte Ltd., interested in approximately 24.99% of the issued share capital of the Company. The table below sets out the subsidiaries of Singapore Telecommunications Limited, which are engaged in businesses, which compete or are likely to compete with the business of the Group.

Name of subsidiary	Shareholding interest	Nature of business	Place of operation
GB21 (Hong Kong) Limited	100%	Provision of telecommunication services and products	Hong Kong
INS Holdings Pte Ltd.	100%	Running, operating, managing and dealing in telecommunication system and services	Singapore
Singapore Telecom Hong Kong Limited	100%	Running, operating, managing and dealing in telecommunication system and services	Hong Kong
Singapore Telecom Japan Co Ltd	100%	Running, operating, managing and dealing in telecommunication system and services	Japan
Singapore Telecom Taiwan Limited	100%	Provision of customer services for telecommunication related activities	Taiwan
Singapore Telecom USA, Inc.	100%	Provision of administrative, technical and advisory services	The United States
SingTel Japan Co., Ltd.	100%	Engaged in telecommunication services business and all other related business	Japan
SingNet Pte Ltd.	100%	Carry out the business of an Internet access service provider	Singapore

The following table sets out the interests of a director in a business, which competes or is likely to compete, with the business of the Group.

Name of director	Nature of director's interest	Name of entity	Nature of business of entity
Mr. Tay Chek Khoon	Directorship	Lanka Communication Services (Private) Limited	Data telecommunication service provider of Internet services, international leased circuits, switched services, frame relay, international fax message, VSAT and facility management
Mr. Tay Chek Khoon	Directorship	APT Satellite Telecommunications Limited	Provision of telecommunication network services including wholesale telecom services, VSAT services and Internet Pop Gateway and facility management for telecommunication equipment

Save as disclosed above, none of the Directors, management shareholders of the Company (as defined in the GEM Listing Rules) and their respective associates (as defined in the GEM Listing Rules) are interested in any business that competes with or is likely to compete with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee on 21 December 2001 with terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. As at 13 May 2003, the audit committee comprises Mr. Yeo Eng Choon, a non-executive Director, and Mr. Leung Man Kit and Mr. Chou Wen Pin, both are independent non-executive Directors. Mr. Yeo Eng Choon has been appointed as an audit committee member in replacement of Mr. Buay Kee Chuan with effect from 29 April 2003. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee has reviewed with the management and the auditors of the Company this unaudited first quarterly report for the three months ended 31 March 2003 and is of the opinion that the financial statements contained in such report comply with the applicable accounting standards and legal requirements, and that adequate disclosures has been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the three months ended 31 March 2003.

DISCLOSURE PURSUANT TO CHAPTER 17 OF GEM LISTING RULES

Set out below are information on the Group's trade and other receivables as at 31 March 2003:

(i) Trade receivables

Trade receivables of the Group mainly represent the receivables from customers under the three business segments of the Group including communication services, Internet access services and virtual private network and solution services. Customers are either individuals or corporate clients. The balance and aging analysis of these trade receivables as at 31 March 2003 were as follows:

	<i>USD'000</i>
Age	
0 – 30 days	2,752
31 – 60 days	868
61 – 90 days	294
91 – 180 days	553
181 – 365 days	357
One to two years	1,469
	<hr/>
	6,293
Less: Allowance for doubtful debts	(1,460)
	<hr/>
Balance as at 31 March 2003	<u>4,833</u>

(ii) Other receivables

Besides the above-mentioned trade receivables, the Group had other receivables with an aggregate outstanding amount of US\$1,367,000 as at 31 March 2003. These other receivables include items such as prepaid network cost, refundable deposits, staff traveling advances, sales tax receivables, interest receivables, etc., arising in the usual and ordinary course of business of the Group.

All of the above trade and other receivables are unsecured, non-interest bearing with payment and other terms as specified in the contracts governing the relevant transactions.

The Group has not made any advances to any connected persons (as defined under the GEM Listing Rules) as at 31 March 2003 or the date of this announcement.

The shareholders of the Company should note that the above disclosure does not strictly comply with Chapter 17 of the GEM Listing Rules which require disclosure of details of trade or other advances made by the Group including, inter alia, the identities of the debtors. As set out in the Company's announcement dated 31 March 2003, it is impractical in terms of timing or commercial confidentiality for the Group to strictly comply with the relevant requirements as set out in Chapter 17 of the GEM Listing Rules on an ongoing basis. The Group has submitted an application to the Stock Exchange for a waiver from strict compliance with the said rules. As at the date of this announcement, the Stock Exchange has not indicated whether the requested waiver will or will not be granted. Further announcement as to the result of the Company's application for the requested waiver will be made in due course.

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

Hong Kong, 13 May 2003

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