INFOSERVE®

# INFOSERVE TECHNOLOGY CORP.

# 英普達資訊科技公司*

*(Incorporated in the Cayman Islands with limited liability)*

## HALF-YEARLY RESULTS ANNOUNCEMENT
## FOR THE SIX MONTHS ENDED 30 JUNE 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.**



*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 six months ended 30 June 2003 of US$11,736,000 represents an approximately 2% increase over the corresponding period in 2002.**

- **Net loss attributable to shareholders for the six months ended 30 June 2003 of US$3,267,000 represents an approximately 19% decrease over the corresponding period in 2002.**

- **Basic loss per share for the six months ended 30 June 2003 was US$0.57 cents, represents an approximately 24% decrease over the corresponding period in 2002.**

- **The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003.**

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 six months ended 30 June 2003 together with the unaudited comparative figures for the corresponding period in 2002 are as follow:

**CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the six months ended 30 June 2003*

| | | **Three months ended** | | **Six months ended** | |
|---|---|---|---|---|---|
| | *NOTES* | **30.6.2003** | 30.6.2002 | **30.6.2003** | 30.6.2002 |
| | | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| | | **(Unaudited)** | (Unaudited) | **(Unaudited)** | (Unaudited) |
| Turnover | *3* | **5,966** | 6,044 | **11,736** | 11,541 |
| Other operating income | | **108** | 8 | **187** | 15 |
| Network operation and telecommunication costs | | **(3,617)** | (2,731) | **(7,096)** | (6,254) |
| Staff costs | | **(1,355)** | (1,552) | **(2,896)** | (3,648) |
| Depreciation and amortisation of property, plant and equipment | | **(505)** | (615) | **(1,057)** | (1,248) |
| Operating lease rentals in respect of machinery and equipment | | **(522)** | (937) | **(1,154)** | (1,891) |
| Occupancy expenses | | **(268)** | (702) | **(593)** | (1,380) |
| Provision for early termination of tenancies | | **–** | – | **(68)** | – |
| Other operating expenses | | **(1,054)** | (395) | **(1,916)** | (870) |
| Loss from operations | | **(1,247)** | (880) | **(2,857)** | (3,735) |
| Finance costs | | **(236)** | (149) | **(410)** | (302) |
| Net loss attributable to shareholders | | **(1,483)** | (1,029) | **(3,267)** | (4,037) |
| Loss per share – Basic | *5* | **(0.26) cents** | (0.19) cents | **(0.57) cents** | (0.75) cents |

## CONDENSED CONSOLIDATED BALANCE SHEET

*As at 30 June 2003*

| | *NOTES* | **30.6.2003** | 31.12.2002 |
|---|---|---|---|
| | | ***US$'000*** | *US$'000* |
| | | **(Unaudited)** | (Unaudited) |
| Non-current assets | | | |
| Property, plant and equipment | *6* | **7,471** | 8,283 |
| Prepaid network capacity | | **2,260** | 2,335 |
| | | **9,731** | 10,618 |
| Current assets | | | |
| Inventories | | **1,038** | 1,247 |
| Trade and other receivables | *7* | **6,941** | 7,938 |
| Pledged bank deposits | | **3,454** | 2,989 |
| Bank balances and cash | | **179** | 74 |
| | | **11,612** | 12,248 |
| Current liabilities | | | |
| Trade and other payables | *8* | **9,339** | 8,375 |
| Service subscription fees received in advance | | **824** | 1,196 |
| Obligations under finance leases due within one year | | **3,719** | 3,079 |
| Convertible notes to a substantial shareholder | | **1,000** | – |
| Current portion of long-term bank loans | | **529** | 522 |
| Short-term bank loans | | **6,596** | 5,871 |
| Bank overdrafts | | **369** | 500 |
| | | **22,376** | 19,543 |
| Net current liabilities | | **(10,764)** | (7,295) |
| Total assets less current liabilities | | **(1,033)** | 3,323 |
| Non-current liabilities | | | |
| Obligations under finance leases due after one year | | **142** | 686 |
| Long-term bank loans | | **2,631** | 2,843 |
| Loan from a substantial shareholder | | **–** | 1,000 |
| Advances from directors | | **878** | 376 |
| | | **3,651** | 4,905 |
| Net liabilities | | **(4,684)** | (1,582) |
| Capital and reserves | | | |
| Share capital | | **738** | 738 |
| Reserves | | **(5,422)** | (2,320) |
| Deficiency of shareholders' funds | | **(4,684)** | (1,582) |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2003*

| | Share capital *US$'000* | Share premium *US$'000* | Translation reserve *US$'000* | Deficit *US$'000* | Total *US$'000* |
|---|---|---|---|---|---|
| At 1 January 2002 | 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 | – | – | (219) | – | (219) |
| Net loss attributable to shareholders | – | – | – | (8,631) | (8,631) |
| At 31 December 2002 | 738 | 53,367 | (496) | (55,191) | (1,582) |
| Exchange differences arising from translation of financial statements of overseas operations | – | – | 165 | – | 165 |
| Net loss attributable to shareholders | – | – | – | (3,267) | (3,267) |
| At 30 June 2003 | 738 | 53,367 | (331) | (58,458) | (4,684) |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 June 2003*

| | **1.1.2003 to 30.6.2003** | 1.1.2002 to 30.6.2002 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| | **(Unaudited)** | (Unaudited) |
| Net cash inflow (outflow) from operating activities | **123** | (6,249) |
| Net cash outflow from investing activities | **(567)** | (56) |
| Net cash inflow from financing activities | **509** | 6,021 |
| Increase (decrease) in cash and cash equivalents | **65** | (284) |
| Cash and cash equivalents at 1 January | **(426)** | 294 |
| Effect of foreign exchange rate changes | **171** | 20 |
| Cash and cash equivalents at 30 June | **(190)** | 30 |
| Analysis of the balances of cash and cash equivalents | | |
| Bank balances and cash | **179** | 299 |
| Bank overdrafts | **(369)** | (269) |
| | **(190)** | 30 |

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 30 June 2003*

### 1. BASIS OF PRESENTATION

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

The condensed financial statements have been prepared in accordance with International Accounting Standard No. 34 "Interim financial reporting" and 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 interim financial report, the directors have given careful consideration to the future liquidity of the Group in light of the Group's net current liabilities of US$10,764,000 and net liabilities of US$4,684,000 as at 30 June 2003. A substantial shareholder of the Company has 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 interim financial report has been prepared on a going concern basis.

## 2. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention. The accounting policies adopted in preparing the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002.

## 3. SEGMENT INFORMATION

**Business segments**

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30.6.2003** | 30.6.2002 | **30.6.2003** | 30.6.2002 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Turnover | | | | |
| – communication services | **2,021** | 2,547 | **4,451** | 5,036 |
| – Internet access services | **1,923** | 2,302 | **3,355** | 4,422 |
| – virtual private network ("VPN") and solution services | **2,022** | 1,195 | **3,930** | 2,083 |
| | **5,966** | 6,044 | **11,736** | 11,541 |
| Results | | | | |
| – communication services | **534** | 1,032 | **1,349** | 1,869 |
| – Internet access services | **1,391** | 1,153 | **2,308** | 1,587 |
| – VPN and solution services | **424** | 660 | **983** | 730 |
| | **2,349** | 2,845 | **4,640** | 4,186 |
| Other operating income | **108** | 8 | **187** | 15 |
| Unallocated operating expenses | **(3,704)** | (3,733) | **(7,684)** | (7,936) |
| Loss from operations | **(1,247)** | (880) | **(2,857)** | (3,735) |
| Finance costs | **(236)** | (149) | **(410)** | (302) |
| Net loss attributable to shareholders | **(1,483)** | (1,029) | **(3,267)** | (4,037) |

**Geographical segments**

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30.6.2003** | 30.6.2002 | **30.6.2003** | 30.6.2002 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Turnover | | | | |
| – Taiwan | **5,379** | 5,534 | **10,759** | 10,435 |
| – United States of America ("USA") | **–** | 251 | **–** | 548 |
| – Others | **587** | 259 | **977** | 558 |
| | **5,966** | 6,044 | **11,736** | 11,541 |
| Results | | | | |
| – Taiwan | **(1,175)** | (226) | **(2,383)** | (1,953) |
| – USA | **(52)** | (398) | **(112)** | (953) |
| – Others | **(256)** | (405) | **(772)** | (1,131) |
| | **(1,483)** | (1,029) | **(3,267)** | (4,037) |

## 4. TAXATION

No provision for taxation has been made in the condensed financial statements 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 following data:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | **30.6.2003** | 30.6.2002 | **30.6.2003** | 30.6.2002 |
| Net loss attributable to shareholders | **US$(1,483,000)** | US$(1,029,000) | **US$(3,267,000)** | US$(4,037,000) |
| Weighted average number of ordinary shares for the purpose of basic loss per shares | **575,382,456** | 536,303,456 | **575,382,456** | 535,239,368 |

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

## 6. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately US$270,000 (2002: US$56,000) on acquisition of property, plant and equipment.

## 7. TRADE AND OTHER RECEIVABLES

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable from 30 to 90 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables at the reporting date:

| | 30.6.2003 | 31.12.2002 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Age | | |
| 0 to 30 days | **3,737** | 3,591 |
| 31 to 60 days | **1,063** | 1,392 |
| 61 to 90 days | **176** | 289 |
| 91 to 180 days | **194** | 258 |
| 181 to 365 days | **673** | 401 |
| 1 to 2 years | **530** | 1,251 |
| Over 2 years | **844** | – |
| | **7,217** | 7,182 |
| Less: Allowance for bad and doubtful debts | **(1,592)** | (1,575) |
| | **5,625** | 5,607 |

## 8. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the reporting date:

| | 30.6.2003 | 31.12.2002 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Age | | |
| 0 to 30 days | **2,906** | 3,074 |
| 31 to 60 days | **430** | 475 |
| 61 to 90 days | **378** | 342 |
| 91 to 180 days | **919** | 484 |
| 181 to 365 days | **896** | 747 |
| | **5,529** | 5,122 |

9. **CONNECTED TRANSACTIONS**

During the period, the Group has the following discloseable connected transactions with Singapore Telecommunications Limited ("SingTel") and its subsidiaries (collectively referred to as the "SingTel Group"). SingTel is the ultimate holding company of a substantial shareholder of the Company, KA Land Pte Ltd ("KA Land").

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| **Nature of transactions** | **30.6.2003** | 30.6.2002 | **30.6.2003** | 30.6.2002 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Network operation and telecommunication costs paid | **220** | 95 | **418** | 323 |

10. **POST BALANCE SHEET EVENT**

On 12 August 2003, the Group contracted with an independent third party to dispose of its international simple resale ("ISR") business in Taiwan for a consideration of NT$30 million.

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

## FINANCIAL REVIEW

For the six months ended 30 June 2003, the Group generated turnover and recorded net loss attributable to shareholders of US$11,736,000 and US$3,267,000 respectively. Compared to the corresponding period in 2002, turnover improved by approximately 2% from US$11,541,000, and net loss attributable to shareholders reduced by approximately 19% from US$4,037,000.

### A. Turnover

Turnover of the Group encompasses (i) communication services fees, (ii) Internet access services fees, and (iii) VPN and solution services fees.

The Group recorded turnover of US$5,966,000 for the three months ended 30 June 2003, representing a slight decrease by approximately 1% from US$6,044,000 for the same period of the previous year. For the half-yearly period ended 30 June 2003, the Group recorded an increase in turnover by approximately 2%. The increase in turnover was mainly driven by the continual increase in revenue of VPN and solution services, which compensated the decrease of revenue from communication services and Internet access services. The decrease of revenue from communication services was mainly attributable to the scale down of the Group's business operations in the USA and Japan since the fourth quarter in 2002 while the decrease of revenue from Internet access services was mainly driven by drop of revenue from ADSL/DSL service and 56K modem dial-up service.

## B. Staff costs

During the second quarter and the half-yearly period of 2003, staff costs amounted to US$1,355,000 and US$2,896,000 respectively, representing a decrease by approximately 13% and 21% compared to each of the respective periods in 2002. Staff number of the Group reduced from 272 as at 30 June 2002 to 203 as at 30 June 2003. The reduction in headcount was mainly due to the scale down of the Group's business operations in the USA and Japan since the fourth quarter of 2002 and also the natural attrition of headcount in other locations.

## C. Occupancy expenses

Total occupancy expenses amounted to US$268,000 and US$593,000 during the second quarter and the half-yearly period of 2003, respectively. The reduction in occupancy expenses for both periods was mainly due to the substantial scale down of the Group's business operations in the USA and Japan since the fourth quarter of 2002 and also the relocations of the Group's office premises in Hong Kong and Taiwan in late 2002.

## D. Other operating expenses

Other operating expenses included mainly bad debt expenses, allowance for slow moving inventories, legal and professional fees, traveling and other miscellaneous office expenses, etc. During the second quarter and the half-yearly period ended 30 June 2003, other operating expenses amounted to US$1,054,000 and US$1,916,000 respectively, representing an increase by 167% and 120% compared to the respective periods of 2002. The increase in other operating expenses was largely accounted by the increase in general provisions for bad and doubtful debts and slow moving inventories which reflected the persistently weak economic environment in Taiwan during the period.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations through internally generated cash flows, bank loans, finance lease obligations, and advances from directors and shareholders' funds. As at 30 June 2003, the Group reported cash and bank deposit balance of US$3,633,000 (2002: US$2,370,000), of which US$3,454,000 (2002: US$2,071,000) was pledged bank deposits. Approximately US$8,000 (2002: US$183,000), US$46,000 (2002: US$40,000), US$70,000 (2002: US$3,000), US$4,000 (2002: US$1,000), and US$43,000 (2002: US$17,000) 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$8,000 (2002: US$55,000) were denominated in United States dollars.

To ensure minimization of currency risk exposure, it is the Group's policy for each operating entity to borrow funds in local currencies. As at 30 June 2003, the Group had available banking facilities of approximately US$13,619,000 for bank overdraft and loan financing (2002: US$9,977,000). The unused banking facilities as at the same date amounted to approximately US$3,748,000 (2002: US$2,128,000). As at 30 June 2003, the Group had outstanding borrowings that encompass short-term and long-term bank loans amounted to US$6,596,000 (2002: US$4,454,000) and US$3,160,000 (2002: US$3,395,000), respectively. The Group's loans were denominated in New Taiwan dollars and United States dollars and bore interest rates ranging from 2.61% to 7.609% (2002: 3.44% to 7.609%).

## 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 30 June 2003, approximately US$3,454,000 (2002: US$2,071,000) of bank deposits, and US$3,663,000 (2002: US$3,813,000) of property, plant and equipment were pledged to banks as security for bank facilities granted to the Group.

## GEARING RATIO

The Group expresses its gearing ratio as a percentage of total non-current liabilities and shareholders' equity. As at 30 June 2003, because the shareholders' funds was negative, gearing ratio is not applicable (2002: 2.52).

## CAPITAL STRUCTURE

There were no changes in the share capital structure of the Company during the period ended 30 June 2003.

On 4 January 2002, the Company issued 64,200,000 shares of HK$0.01 each to public investors by placing at HK$0.79 each.

## MATERIAL ACQUISITION AND DISPOSAL

No acquisition or disposal of subsidiary or affiliated company was made during the six months ended 30 June 2003.

On 12 August 2003, the Group contracted with an independent third party to dispose of its ISR business in Taiwan for a consideration of NT$30,000,000 (or approximately US$873,000). Further details of the transaction will be set out in an announcement (the "Announcement") to be made to shareholders of the Company as soon as possible. Trading in the shares of the Company has been suspended from 9:30 a.m. on 13 August 2003 pending release of the Announcement.

## 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. The Group will continue to identify strategic investment opportunities in the People's Republic of China ("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.

## 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 30 June 2003, the Group had no outstanding hedging instruments.

## EMPLOYEE INFORMATION

At 30 June 2003, the Group employed 203 employees (2002: 272). They were remunerated in accordance with their performance and market condition. Staff cost was approximately US$2,896,000 for the six months ended 30 June 2003 as compared to approximately US$3,648,000 for the corresponding period of the preceding financial year.

## CONTINGENT LIABILITIES

As at 30 June 2003, the Directors were not aware of any material contingent liabilities.

## BUSINESS REVIEW

The results for the first half of 2003 reflect the double impact firstly from lethargic macroeconomic environment in the pre-Iraq War period and secondly from the wide spread of Severe Acute Respiratory Syndromes ("SARS") epidemic in the Greater China Region.

For the six months ended 30 June 2003, the Group continued its efforts in sharpening business focus on the core IP-VPN and other IT/SI solution services.

During this period, the Group commenced selling of isMS – Infoserve Management Services, an additional value-added service combining managed network performance services and managed network security services. Although it is premature to predict whether this new product could generate a meaningful revenue stream to the Group, the Group has successfully demonstrated its IT/SI skills by providing additional value-added services and technical and consulting assistance to customers who demand integration of their VPN and network security.

Nonetheless in April 2003, through its subsidiary in Japan, the Group's IT/SI skill and network quality were once again proven by successfully assisting a Japanese mobile communication operator FLAP to build and operate an integrated platform for fax, voice, video conference and Internet access services for its PDA users in Japan via Infoserve gatekeeper.

The slowdown in IT spending as a result of SARS has caused enterprises' hesitation in investment of non-vital value-added solution services, although the popular communication solutions such as videoconferencing did help to generate a meaningful income to the Group in the same period.

**BUSINESS PROSPECTS**

The Group is of the view that the IP-VPN market in the Greater China region will continue to grow in the post-SARS regional economy, and that the market for management services should continue to show good opportunities tied in with an expected rebound of economy. It is also becoming increasingly clear that productivity growth fueled by IT/SI solutions will continue to contribute to the broader economic recovery.

The Group will continue to explore business opportunities with target customers who consider VPN and IT/SI solutions as the enabler of their business strategies, allowing for greater productivity and competitive advantage. The Group is well positioned to help customers integrate their applications and technologies for data, voice and video communication that will continue to drive their productivity. With increasingly accumulated skills in IT/SI solutions, the Group may also seek business opportunities in government bidding projects in the near future.

The Group is operating in a highly competitive telecom/technology sector in the Greater China region. Although it is premature to speculate on any specific impact from the potential threat of the return of SARS at the turn of winter, and/or any enormous pricing pressures in the IP-VPN market, it is imperative that the Group to seek continual improvement in its operating efficiency to avoid being eliminated from the market. Accordingly, the Group may continue to reduce its headcount and related overheads by outsourcing further cost-intensive facilities and operations to its reliable business partners, aiming to raise the Group's competitiveness in the market by achieving the lowest operating cost while maintaining or even strengthening the quality of services to the customers.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

| According to the business objectives as stated in the prospectus of the Company dated 28 December 2001 (the "Prospectus") for the period January – December 2003 | Actual business progress for the period January – June 2003 |
|---|---|
| **Strategic development** | |
| • Aim to have formed strategic alliances with or established interconnections with domestic telecommunication networks in Korea, in addition to its existing network covering Taiwan, Hong Kong, the PRC, Japan and Singapore, and the USA. | • The Group continues to focus on its IP-VPN business development in the Greater China region (including, the PRC, Hong Kong and Taiwan), and has not conducted such activities in Korea due to lack of demand in that market. The Group may resume these activities if customer demands in Korea rise. |
| • Review the effectiveness of its strategic development in these markets and modify and refine its strategy accordingly. | • In line with its IP-VPN business focus in the Greater China region, since the second quarter in 2001 the Group's strategy to set up business operation in the PRC through close alliances and business relationships with reputable partners and resellers, including fixed network operators and local ISPs in the region, has proved successful. However, in view of enormous growth potential in the region, the Group will continue to seek more aggressive tactics that can further accommodate growing customer demands, such as direct invoicing and hardware selling. In order to reduce operating expenses, numerous tactics were implemented in Singapore, Japan and the USA at the end of 2002. While the Group's business operation in Singapore was outsourced to a local IT/SI operator Netplus under licensing contract, the Group has substantially downsized operations in the USA and Japan due to unfavorable performance over the previous two years. The Group will continue to adopt and revise business strategy through close monitoring of the ever-changing situations in respective markets. |

**Products and services development**

- Work to improve the short message service system, depending on its initial acceptance, which should be launched prior to this period.

- The short message service system was developed for internal communication purpose between the Group's customer service center and its customers. However, no opportunity of commercialization has been identified ever since due to persistent economy downturn that curtails corporate IT spending.

- Launch new sophisticated value-added services for its customers using VPN and other solution services, depending on the progress of development of new technology and application services that will be integrated into the Group's existing products and services, and the market reception of these products.

- The Group commenced selling of is MS – Infoserve Management Services, an additional value-added service combining managed network performance services and managed network security services at the beginning of 2003. The initial response was encouraging with high recognition of service performance and reliability from potential customers and with numerous cases successfully closed. In the meantime, the service package of isMS was also exported to the PRC for local adaptation and test marketing. However, due to the slowdown in IT spending as a result of SARS, sales barriers such as longer purchase decision-making and sales cycles began to surface. The Group remains optimistic that demands of management services will return once the overall economy improves.

**Network and facilities development**

- Establish a POP in Korea and develop managed IP connections with VPN service providers in each of Korea, Canada, Europe and Australia.
- Due to the Group's business focus in the Greater China region, the Group has not conducted such activities beyond this region.

- Consider to establish a POP in Europe depending on the success of the Group's marketing and sales in Europe.
- No such demand has emerged in Europe.

- Continue to upgrade network facilities and backbone capacity.
- Continue to optimize the utilization of network facilities and backbone.
- In the first half of 2003, new IPLC circuits were built between Taipei, Hong Kong, Guangzhou and Shanghai, and backbone circuits in Taiwan were upgraded from T1 to T3 to accommodate the growing VPN service demands. New ADSL access circuits in Taiwan were also built for broadband Internet access service.

**Sales and marketing strategy**

- Set up a sales office in Korea.
- Set up a sales office in Europe.
- Expand the sales and marketing team to support the sales office in Europe, if necessary.
- Seek resellers to sell its products and services in Europe.
- Due to the Group's business focus in the Greater China region, the Group will not conduct such activities in either Korea or Europe in 2003.

## USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The planned use of proceeds from the new issue of shares by way of placing on 8 January 2002 for the year 2003 as set out in the Prospectus are listed below:

| | Planned amount |
|---|---|
| | *HK$'000* |
| Strategic development activities | 500 |
| Products and services development activities | 200 |
| Network and facilities development activities | 500 |
| Sales and marketing activities | 100 |
| | 1,300 |

As set out in Note 2 of "USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING" under Management Discussion and Analysis of 2002 annual report of the Company, the amount of proceeds of HK$1,300,000 originally planned to use in 2003 has been utilised in 2002. The planned use of proceeds of HK$1,300,000 in 2003 mainly for the establishment of POPs and sales offices in Korea and Europe is no longer required because the planned business objectives and strategies for 2003 in respect of the expansion of the Group's business into Korea and Europe will be suspended in view of rising competition and uncertainty in these markets. The Group will continue to focus on developing its VPN business in the Greater China market, particularly, the fastest growing market – China.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2003, the interests of the Directors in the ordinary shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which would have to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which had to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors were as follows:

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

3. Mr. Liu Yuan Chang ceased to be the director of the Company with effect from 6 August 2003.

Save as disclosed above, as at 30 June 2003, none of the Directors had any interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations within the meaning of Part XV of the SFO) as recorded in the register required to be maintained under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules.

## SHARE OPTION SCHEMES

As at 30 June 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).

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 under the Pre-IPO Share Option Scheme are as follows:

| Participants | Date of grant | Vesting period of share options | Exercise period of share options | Exercise price per share *HK$* | Balance as at 1 January 2003 | Granted during the period | Exercised during the period | Lapsed during the period | Balance as at 30 June 2003 |
|---|---|---|---|---|---|---|---|---|---|
| *Executive Directors:* | | | | | | | | | |
| 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 *(Note 1)* | – | – | – | 1,609,000 |
| Mr. Liu Yuan Chang *(Note 2)* | 27 December 2001 | 8 July 2002 to 1 January 2004 | 8 July 2002 to 20 December 2011 | 0.70 | 520,000 | – | – | – | 520,000 |
| 93 Other employees | 27 December 2001 | 8 July 2002 to 1 January 2004 | 8 July 2002 to 20 December 2011 | 0.70 | 7,582,000 | – | – | 627,000 | 6,955,000 |
| Total 96 employees | | | | | 10,855,000 | – | – | 627,000 | 10,228,000 |

*Note:*

1. 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 SFO.

2. Mr. Liu Yuan Chang ceased to be the director of the Company with effect from 6 August 2003.

## (2) Share Option Scheme

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

| Participants | Date of grant | Vesting period of share options | Exercise period of share options | Exercise price per share *HK$* | Balance as at 1 January 2003 | Granted during the period | Exercised during the period | Lapsed during the period | Balance as at 30 June 2003 |
|---|---|---|---|---|---|---|---|---|---|
| *Executive Directors:* | | | | | | | | | |
| 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 *(Note 1)* | – | – | – | 1,580,000 |
| Mr. Liu Yuan Chang *(Note 2)* | 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 |
| 163 Other employees | 21 February 2002 | 1 January 2003 to 1 January 2005 | 1 January 2003 to 31 December 2005 | 1.212 | 14,265,000 | – | – | 495,000 | 13,770,000 |
| Total 166 employees | | | | | 18,745,000 | – | – | 495,000 | 18,250,000 |

*Note:*

1. 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 SFO.

2. Mr. Liu Yuan Chang ceased to be the director of the Company with effect from 6 August 2003.

## 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 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 30 June 2003, in addition to those interests as disclosed under the paragraph headed "Directors' interests in share capital", pursuant to Part XV of the SFO, the Company had been notified of the following interests, being 5% or more in the issued share capital of the Company:

| **Name of shareholder** | **Number of share interested in** |
|---|---|
| KA Land Pte Ltd. *(Note 1)* | 182,802,864 *(Note 2)* |

*Note:* 1. KA Land Pte Ltd. is a wholly-owned subsidiary of SingTel.

2. The 182,802,864 shares comprise 143,802,864 ordinary shares directly held by KA Land and the 39,000,000 shares which may be issued by the Company upon full conversion of the convertible notes of an aggregate principal amount of HK$7,800,000 issued by the Company to KA Land.

Save as disclosed above, as at 30 June 2003, there was no person who had an interest and/or a short position in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO and/or was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group, or any options in respect of such capital.

## SPONSOR'S INTERESTS

Somerley Limited ("Somerley") is appointed as sponsor of the Company for the period from 16 June 2002 to 31 December 2004 in return for a monthly retainer fee. In addition, Somerley is employed as the Company's financial adviser in connection with a transaction of the Company and is entitled to receive advisory fee therefrom.

As updated and notified by Somerley, none of Somerley, its directors, employees and associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) has 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 August 2003.

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

## COMPETING INTERESTS

The table below sets out the subsidiaries of SingTel which are all wholly owned by SingTel and engaged in the businesses that 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 services | Singapore |
| Singapore Telecom Hong Kong Limited | 100% | Running, operating, managing and dealing in telecommunication system services | Hong Kong |
| Singapore Telecom Japan Co Ltd | 100% | Running, operating, managing and dealing in telecommunication system 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 | USA |
| 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. 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 half-yearly report for the six months ended 30 June 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 six months ended 30 June 2003.

## BOARD PRACTICES AND PROCEDURES

The Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures throughout the accounting period covered by the half-yearly report.

## DISCLOSURE PURSUANT TO CHAPTER 17 OF GEM LISTING RULES

Set out below are information on the Group's trade and other receivables as at 30 June 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 VPN and solution services. Customers are either individuals or corporate clients. The balance and aging analysis of these trade receivables as at 30 June 2003 were set out in Note 7 to the condensed financial statements.

(ii) Other receivables

Besides the above-mentioned trade receivables, the Group had other receivables with an aggregate outstanding amount of US$1,316,000 as at 30 June 2003. These other receivables include items such as prepaid network costs, 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 30 June 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 going 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 August 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.*