INFOSERVE®

Infoserve Technology Corp.

(Incorporated in the Cayman Islands with Limited Liability)

Half-yearly Report **2002**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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The Stock Exchange takes no responsibility for the contents of this report, 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 report.

This report, 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Successful listing on the GEM on 8 January 2002.
- Turnover for the six months ended 30 June 2002 of US$11,541,000 represents an approximately 17% decrease over the corresponding period in 2001.
- Loss attributable to shareholders for the six months ended 30 June 2002 of US$4,037,000 represents an approximately 69% decrease over the corresponding period in 2001.
- Basic loss per share for the six months ended 30 June 2002 was US$0.75 cents, represents an approximately 73% decrease over the corresponding period in 2001.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002.

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Independent Review Report

To the directors of Infoserve Technology Corp.

Introduction

We have been instructed by Infoserve Technology Corp. (the "Company") to review the interim financial report set out on pages 5 to 14.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") require the preparation of an interim financial report to be in compliance with the International Accounting Standard No. 34 "Interim Financial Reporting" and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and vertification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

Without modifying our review conclusion, we draw to your attention that the comparative condensed income statement for the six months ended 30 June 2001 and the condensed income statements for each of the three month-periods ended 30 June 2001 and 30 June 2002, and the comparative condensed consolidated cash flow statement for the six months until 30 June 2001 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu
Certified Public Accounts

8 August 2002

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 2002 together with the unaudited comparative figures for the corresponding period in 2001.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2002

	Notes	**Three months ended**		**Six months ended**	
		30.6.2002 *US$'000* (Unaudited)	**30.6.2001** *US$'000* (Unaudited)	**30.6.2002** *US$'000* (Unaudited)	**30.6.2001** *US$'000* (Unaudited)
Turnover	3	6,044	6,246	11,541	13,944
Network operation and telecommunication costs		(2,731)	(5,444)	(6,254)	(11,648)
Gross profit		3,313	802	5,287	2,296
Interest income		8	105	15	433
Advertising and promotion expenses		(63)	(180)	(67)	(314)
Staff costs		(1,552)	(3,175)	(3,648)	(7,120)
Operating lease rentals in respect of machinery and equipment		(937)	(983)	(1,891)	(1,899)
Occupancy expenses		(702)	(925)	(1,380)	(2,142)
Depreciation and amortisation of property, plant and equipment		(615)	(735)	(1,248)	(1,474)
Other operating expenses		(332)	(1,512)	(803)	(2,375)
Loss from operations		(880)	(6,603)	(3,735)	(12,595)
Finance costs		(149)	(159)	(302)	(331)
Loss before taxation		(1,029)	(6,762)	(4,037)	(12,926)
Taxation	4	–	(13)	–	(13)
Net loss for the period		(1,029)	(6,775)	(4,037)	(12,939)
Loss per share – basic	5	(0.19) cents	(1.44) cents	(0.75) cents	(2.74) cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2002

	Notes	30.6.2002 *US$'000* (Unaudited)	31.12.2001 *US$'000* (Audited)
Non-current assets			
Property, plant and equipment	6	9,033	9,872
Prepaid network capacity	7	4,069	1,642
Trademarks		45	52
Deferred share issuance expenditures		–	2,194
		13,147	13,760
Current assets			
Inventories		862	763
Trade and other receivables	8	7,993	6,396
Pledged bank deposits		2,071	870
Bank balances and cash		299	413
		11,225	8,442
Current liabilities			
Trade and other payables	9	8,751	9,138
Deferred revenue		849	964
Provision for early termination of lease agreement		–	1,024
Obligations under finance leases due within one year		1,971	1,447
Amounts due to directors		–	544
Current portion of long-term bank loans		303	1,039
Short-term bank loans		4,185	3,024
Bank overdrafts		269	119
		16,328	17,299

	Notes	30.6.2002 *US$'000* (Unaudited)	31.12.2001 *US$'000* (Audited)
Net current liabilities		(5,103)	(8,857)
Total assets less current liabilities		8,044	4,903
Non-current liabilities			
Obligations under finance leases due after one year		1,549	69
Long-term bank loans		3,092	2,762
Advances from directors	10	1,115	–
		5,756	2,831
Net assets		2,288	2,072
Capital and reserves			
Share capital		688	605
Reserves		1,600	1,467
Shareholders' funds		2,288	2,072

The interim financial report on page 5 to 14 were approved and authorised for issue by the Board of Directors on 8 August 2002 and all signed on its behalf by:

Tsai Jenp Luh
Director

Chang Hsiao Hui
Director

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2002

	Share capital *US$'000*	Share premium *US$'000*	Translation reserve *US$'000*	Deficit *US$'000*	Total *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 on translation of financial statements of overseas operations	–	–	15	–	15
Net loss for the year	–	–	–	(27,526)	(27,526)
At 31 December 2001	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	–	(2,322)	–	–	(2,322)
Exchange differences arising on translation of financial statements of overseas operations	–	–	55	–	55
Net loss for the period	–	–	–	(4,037)	(4,037)
At 30 June 2002	688	52,419	(222)	(50,597)	2,288

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2002

	1.1.2002 to 30.6.2002 *US$'000* (Unaudited)	1.1.2001 to 30.6.2001 *US$'000* (Unaudited)
Net cash outflow from operating activities	(6,249)	(11,478)
Net cash outflow from investing activities	(56)	(4,479)
Net cash inflow (outflow) from financing activities	6,021	(76)
Decrease in cash and cash equivalents	(284)	(16,033)
Cash and cash equivalents at 1 January	294	26,447
Effect of foreign exchange rate changes	20	(45)
Cash and cash equivalents at 30 June	30	10,369
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	299	10,485
Bank overdrafts	(269)	(116)
	30	10,369

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the six months ended 30 June 2002

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 of The Stock Exchange of Hong Kong Limited ("GEM").

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 to the GEM Rules.

In preparing the interim financial report the directors have given careful consideration to the future liquidity of the Group. As explained in Note 11, the Group's credit facilities are guaranteed by the directors who 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 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 interim financial report has been prepared in accordance with International Accounting Standards ("IAS").

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31 December 2001.

3. Segment information

Business segments

	Three months ended 30.6.2002 US$'000	Three months ended 30.6.2001 US$'000	Six months ended 30.6.2002 US$'000	Six months ended 30.6.2001 US$'000
Turnover				
– communication services	2,547	2,623	5,036	6,276
– Internet access services	2,302	3,451	4,422	7,396
– virtual private network ("VPN") and solution services	1,195	172	2,083	272
	6,044	6,246	11,541	13,944
Results				
– communication services	1,032	(476)	1,869	118
– Internet access services	1,153	588	1,587	681
– VPN and solution services	660	(272)	730	(659)
	2,845	(160)	4,186	140
Interest income	8	105	15	433
Unallocated operating expenses	(3,733)	(6,548)	(7,936)	(13,168)
Loss from operations	(880)	(6,603)	(3,735)	(12,595)
Finance costs	(149)	(159)	(302)	(331)
Loss before taxation	(1,029)	(6,762)	(4,037)	(12,926)
Taxation	–	(13)	–	(13)
Net loss for the period	(1,029)	(6,775)	(4,037)	(12,939)

Geographical segments

	Three months ended		Six months ended	
	30.6.2002	**30.6.2001**	**30.6.2002**	**30.6.2001**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Turnover				
– Taiwan	5,534	5,626	10,435	12,590
– United States of America ("US")	251	410	548	936
– others	259	210	558	418
	6,044	6,246	11,541	13,944
Results				
– Taiwan	(226)	(6,103)	(1,953)	(11,683)
– US	(398)	(445)	(953)	(868)
– others	(405)	(227)	(1,131)	(388)
	(1,029)	(6,775)	(4,037)	(12,939)

4. Taxation

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

The charge in 2001 represented underprovision of Taiwan corporate income tax in prior years.

5. Loss per share

The calculation of the basic loss per share is based on the following data:

	Three months ended		Six months ended	
	30.6.2002	**30.6.2001**	**30.6.2002**	**30.6.2001**
Net loss for the period	US$(1,029,000)	US$(6,775,000)	US$(4,037,000)	US$(12,939,000)
Weighted average number of ordinary shares for the purpose of basic loss per share	536,303,456	472,103,456	535,239,368	472,103,456

No diluted loss per share has been presented as the effect of the potential shares outstanding during the period was anti-dilutive. There were no potential dilutive shares in 2001.

6. Additions to property, plant and equipment

During the period, the Group spent approximately US$56,000 (2001– US$5,894,000) on acquisition of property, plant and equipment.

7. Additions to prepaid network capacity

During the period, the Group spent approximately US$2,500,000 (2001– US$1,727,000) on acquisition of prepaid network capacity in respect of additional international bandwidth capacity on an indefeasible right of use basis.

8. Trade and other receivables

The Group allows an average credit period of 30 – 90 days to its trade customers.

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

	30.6.2002 *US$'000*	**31.12.2001** *US$'000*
Age		
0 – 30 days	2,582	2,331
31 – 60 days	1,276	1,100
61 – 90 days	454	393
91 – 180 days	558	504
Over 180 days	1,026	1,113
	5,896	5,441
Less: Allowance for doubtful debts	(1,118)	(1,139)
	4,778	4,302

9. Trade and other payables

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

	30.6.2002	**31.12.2001**
	US$'000	*US$'000*
Age		
0 – 30 days	2,531	2,647
31 – 60 days	1,060	1,223
61 – 90 days	336	361
91 – 180 days	652	463
Over 180 days	192	32
	4,771	4,726

10. Advances from directors

The advances are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, the advances are unlikely to be repaid within the next twelve months of the balance sheet date and are therefore shown in the balance sheet as non-current.

11. Related Party Transactions

During the period, the Group has the following significant transactions with Singapore Telecommunications Limited and its subsidiaries. Singapore Telecommunications Limited is the ultimate holding company of KA Land Pte Ltd., a substantial shareholder of the Company.

	Three months ended		**Six months ended**	
	30.6.2002	**30.6.2001**	**30.6.2002**	**30.6.2001**
Nature of transaction	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Network operation and telecommunication costs paid	95	273	323	311

The directors of the Company, Messrs. Tsai Jenp Luh and Chang Hsiao Hui, have given personal guarantees to the extent of US$7,849,000 (2001– US$6,944,000) to certain banks to secure the credit facilities granted to the Group.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001–Nil).

FINANCIAL REVIEW

For the six months ended 30 June 2002, the Group generated turnover and recorded loss attributable to shareholders of US$11,541,000 and US$4,037,000, respectively. Compared to the corresponding period in 2001, turnover declined by approximately 17% from US$13,944,000, and loss attributable to shareholders reduced by approximately 69% from US$12,939,000.

A. Turnover

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

The Group recorded turnover of US$6,044,000 for the three months ended 30 June 2002, representing a decrease by approximately 3% from US$6,246,000 for the same period of the previous year. For the half-yearly period ended 30 June 2002, the Group recorded a reduction in turnover by approximately 17% primarily attributable to the decline in revenue from communication services and Internet access and related services by approximately 20% and 40%, respectively. Aggressive pricing competition in the market for IDD and Internet access services is the major factor that caused the market prices of and revenue from communication services and Internet access and related services to fall considerably over the six months period under review.

In spite of the generally weak performances in communication and Internet access and related services businesses during the six months ended 30 June 2002, the Group realized substantial growth trend in the VPN business within the Greater China region. Since the official launch of the VPN services in late March 2001, the Group has gradually built up its VPN customer base to approximately 240 corporate customers by end of June 2002. The built up of VPN corporate customers over the period resulted in significant growth in VPN business revenues. During the second quarter of 2002, US$1,195,000 was generated from VPN and solution services compared to US$172,000 reported during the same period in 2001, representing an increase of 7 folds. For the six months ended 30 June 2002, the Group recorded VPN business revenue of US$2,083,000 compared to US$272,000 reported during the same period in 2001 (i.e., from the date of launch of VPN services in late March 2001 to 30 June 2001).

The Group realized revenue expansion opportunities in the VPN business in the Greater China market mainly through (i) aggressive promotional strategies and (ii) an effective charging method that ideally commits VPN customers to an irrevocable one-year contract term.

B. Network operation and telecommunication costs

Total network operation and telecommunication costs for the three months ended 30 June 2002 declined by approximately 50% to US$2,731,000 from US$5,444,000 in the same reporting period of 2001. During this period, bandwidth costs dropped by approximately 57% to US$770,000 whereas access costs declined by approximately 48% to US$798,000. Since the beginning of the first quarter of 2002, the Group continued to achieve considerable cost savings in bandwidth capacity through subscription of international bandwidth on an indefeasible right to use basis to replace most of the international circuits on short-term lease basis between Taiwan and Hong Kong and between Taiwan and the United States.

The declining trend in access costs during the first six months of 2002 was mainly attributable to reduction in (i) fixed access circuits cost and (ii) suppliers' purchase price of Internet access services. During the second quarter of 2002, the Group recorded significant reduction in termination cost by approximately 37% to US$1,241,000 compared to the same period in 2001. In spite of the slight decrease in communication revenue by 3% mainly due to reduction in fax service business during the second quarter of 2002, the Group managed to implement effective cost control over traffic routing that resulted in prolong reduction in unit termination cost for the voice communication business. The Group foresees further reduction in overall network operation and telecommunication costs through continual exercise of prudent measures on cost control policies.

C. Advertising and promotion expenses

During the second quarter and the half-yearly period of 2002, advertising and promotion expenses amounted to US$63,000 and US$67,000, respectively, representing a decrease by approximately 65% and 79% compared to each of the respective periods in 2001. Throughout the first six months in 2002, the Group realized declining trend in advertising and promotion expenses as a direct result of restructured sales and marketing strategy of channel sales arrangements since the early part of 2001. Following the launch of VPN business towards the end of the first quarter of 2001, the Group continued to focus on channel agreements unlike direct selling in the past for communication and Internet access and related services. Direct selling coupled with reseller arrangement strategies continued for the sales of VPN business during the first half of 2002.

D. Staff costs

Total staff costs amounted to US$1,552,000 and US$3,648,000 during the second quarter and the half-yearly period of 2002, respectively. Through continual direct sales efforts in promoting VPN business and focusing on channel sales arrangements for communication and Internet access and related services, the Group further reduced the number of direct sales personnel and transferred the remaining direct sales staff from communication services and Internet access and related services to promote the VPN business. This resulted in further reduction in staff costs for the three months and six months ended 30 June 2002 by approximately 51% and 49%, respectively, compared to the corresponding periods in 2001.

E. Occupancy expenses

During the second quarter and the half-yearly period of 2002, the Group continued to adopt and exercise strict cost control policy over occupancy expenses parallel to the restructure of the Group's sales and marketing strategy. Throughout the course of the six months ended 30 June 2002, the Group managed to reduce total occupancy expenses by approximately 36% to US$1,380,000 compared to the same period in 2001. During second quarter of 2002, total occupancy expenses decreased by approximately 24% to US$702,000 compared to the corresponding period in 2001. The overall reduction in occupancy expenses during the current reporting period was largely attributable to (i) certain downsized under-utilized office premises in various locations and (ii) eliminated remote (offsite) sales offices across Taiwan.

F. Other operating expenses

Other operating expenses comprise legal and professional, repair and maintenance, traveling and entertainment, postage and stationery, bad debt expenses, insurance, sundry expenses, etc. During the second quarter and the half-yearly period ended 30 June 2002, other operating expenses amounted to US$332,000 and US$803,000, respectively, representing a decrease by 78% and 66% compared to the respective periods of 2001. The reduction in other operating expenses largely reflects the decrease in legal and professional fees during the first half of the year in 2002. For the six months ended 30 June 2001, the Group incurred more legal and professional fees than compared to the current reporting period of 2002 due to (i) group business expansion efforts during the first half of 2001 and (ii) legal preparation and consultancy services rendered during the same reporting period of 2001 in relation to the initial placing of the Company's shares on 8 January 2002. In addition, the Group managed to reduce other office overhead such as traveling and entertainment, postage and stationery, insurance, and various office sundry expenses over the six months ended 30 June 2002. The Group is committed to continue with implementing more prudent and cost-effective control measures with the goal to further reduce operating expenditures where feasible.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations through internally generated cash flows, bank loans, finance lease obligations, advances from directors and shareholders' funds. As at 30 June 2002, the Group reported cash and bank deposit balance of US$2,370,000 (2001–US$1,283,000), of which US$2,071,000 (2001 – US$870,000) was pledged bank deposits. Approximately US$183,000 (2001 – US$54,000), US$40,000 (2001 – US$6,000), US$3,000 (2001 – US$9,000), US$1,000 (2001 – US$63,000), and US$17,000 (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$55,000 (2001 – US$271,000) 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 2002, the Group had available banking facilities of approximately US$9,977,000 for bank overdraft and loan financing (2001 – US$7,220,000). The unused banking facilities as at the same date amounted to approximately US$2,128,000 (2001 – approximately US$300,000). As at 30 June 2002, the Group had outstanding borrowings that encompass short-term and long-term bank loans amounted to US$4,454,000 (2001 – US$3,143,000) and US$3,395,000 (2001 – US$3,801,000), respectively. The Group's loans were denominated in New Taiwan dollars and United States dollars and bore interest rates ranging from 3.44% to 7.609% (2001 – 5.00% to 8.12%).

CHARGES ON GROUP ASSETS

Certain of the Group's assets are pledged to banks as security for bank overdraft and bank loan facilities granted to the Group. As at 30 June 2002, approximately US$2,071,000 (2001 – US$870,000) of bank deposits, US$930,000 (2001 – US$986,000) of trade receivables and US$3,813,000 (2001 – US$3,660,000) of property, plant and equipment were pledged to banks as security for banking facilities granted to the Group.

GEARING RATIO

The Group expresses its gearing ratio as a percentage of total long-term borrowings, including obligations under finance lease due after one year, long-term bank loans, advances from directors, and shareholders' equity. As at 30 June 2002, the Group's gearing ratio was 2.52 (2001 – 1.37).

CAPITAL STRUCTURE

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. Since 8 January 2002, the Company's shares have been listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

MATERIAL INVESTMENT AND CAPITAL ASSETS

Other than those disclosed in the Company prospectus dated 28 December 2001 under the section headed "STATEMENT OF BUSINESS OBJECTIVES AND STRATEGY", the Group did not have any plan for material investment and acquisition of material capital assets as at 30 June 2002.

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 2002, the Group had no outstanding hedging instruments.

EMPLOYEE INFORMATION

At 30 June 2002, the Group employed 272 employees (2001 – 478). They were remunerated in accordance with their performance and market condition. Staff cost was approximately US$3,648,000 for the six months ended 30 June 2002 as compared to approximately US$7,120,000 for the corresponding period of the preceding financial year.

CONTINGENT LIABILITIES

As at 30 June 2002, the Directors were not aware of any material contingent liabilities.

BUSINESS REVIEW

The Group continues to focus on its VPN business in the Greater China region. Through successful execution of channel partner relationships in the PRC, the Group's VPN service provisioning capability has been extended from the Shenzhen-Donguan-Guangzhou region into the Shanghai-Kunshang-Suzhou region, where most Taiwan-based corporations have established their branch offices or joint ventures. Currently, the Group is cooperating closely with channel partners including China Unicom, China Netcom, Jitong, 21viaNet, Capital Network, Roadtool Net, etc. to provide VPN services to the Group's customers in the PRC. The Company continues to be open to any good opportunities to acquire or ally with companies in the PRC providing synergy. With an extended regional service network bringing together multiple partners and resellers, the Group will be able to broaden its market coverage and in turn, will build up reputation and market leadership in the VPN market across the Taiwan Straits. At present, the Group is serving close to 240 VPN customers in the Greater China region, representing more than 10 times growth comparing to a year ago.

As VPN are becoming more popular platform for voice, video and data transport, and integration, the Group's capability in delivering multiple IP-based solutions and services to meet the diversified customer needs, including CPE (customer premises equipment) applications and SI (system integration) requirements, is essential in sharpening its competitive edge to serve the increasing customer base. Since beginning of 2002, the Group has started to and will continue to recruit SI-experienced professionals to fulfill the respective functions of dedicated account management in maintaining customer loyalty and sales support in providing technical consultation.

While growing VPN business provided a sound communication platform for corporate customers, the Group continues to develop more value-added services (e.g. managed services) to satisfying customers' needs. In June 2002, the Group has expanded its services portfolio by launching managed firewall service. Currently, the Group is also preparing the launch of a security command center in a joint effort with industry renowned vendor Unisys.

Apart from its aggressive strategy in revenue generation, the Group is also highly keen in any cost saving opportunities. On 18th April 2002, the Company's subsidiary in Taiwan, Infoserve Technology Corporation, successfully teamed up with Taiwan Telecommunications Network ("TTN") to announce a strategic business alliance between the two companies through a press conference in Taipei. By sharing of network resources, the alliance with TTN will enable the Group to eliminate certain redundant network facilities in Taiwan, and therefore reducing the Group's network costs.

BUSINESS PROSPECTS

During the first half of 2002, it was generally believed the sluggish global economy would soon bottom out by end of this year. However, in the wake of a recent epidemic of corporate scandals in the United States that triggers another wave of feared economic slump, the business community is now rightly prepared to embrace a further prolonged recovery. With the global economy recovery slow to materialize and barring unforeseen circumstances, the Group remains cautiously optimistic on the outlook of VPN business in the Greater China market, which is expected to flourish during the second half of this year following China's accession to WTO and the robust business opportunity brought upon by China's hosting of the 2008 Olympic Games.

The global financial market environment remained lethargic during the first half of 2002. However, the Group believes that business prospects remain encouraging with sustained interest from potential partners. The Group will continue to be open to acquisition and alliance opportunities with companies providing synergy. As the Group is steadily improving its operating performances, its leading position in the VPN market in the Greater China region will continue to provide the Group with a definite edge in making the best of acquisition and alliance opportunities.

The Group will continue its efforts in enhancing provisioning capability through channel partner relationships in the Greater China market as well as other Southeast Asia market. Based on the Group's successful operation model in the PRC market, a key ingredient to a new market entry is to remain flexible and recognizing the value of cooperation rather than competition within the frame of competition. The Group believes that persistent partnership will magnify scale of economies and eventually will facilitate higher market shares and higher profitability.

The first half of 2002 was a critical leg on the Group's journey to become one of the largest VPN providers in the Greater China market. The Group anticipates the combination of its solid customer base, strong service provisioning capability, marketing positioning and a good brand name will enable the Group to further leverage VPN as the main tribute to the Group, not only to facilitate growth, but also to help improve profitability. In the face of a weak market sentiment linking to the issues of corporate responsibility, governance, and disclosure, the Group will continue to execute its business objectives and strategies in accordance with all regulatory requirements and best practices.

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 – June 2002	Actual business progress for the period January – June 2002
Strategic development	
• Identify strategic investment opportunities in the PRC if the regulatory environment allows	• The Company continues to be open to such opportunities.
• Extend the range of application services to customers using VPN and other solutions services by co-operating with software developers	• An on-line payment software "Smart Cash" has been developed and implemented to certain resellers as an on-line payment gateway for end-users of the Group's communication services in April 2002. This application service will also be promoted to customers using VPN.
Products and services development	
• Launch various managed services, including: – Bandwidth on demand – Load balancing; and – Firewall and anti-virus services	• The Group has launched firewall and anti-virus services in June 2002. However, the Group has not launched bandwidth on demand and load balancing services in view of their low market demand due to over-supply of bandwidth and falling bandwidth price.

- Launch unified message services, storage services and upgrade **isNetHealth** services
- These projects were suspended due to obvious reduction in many Asian enterprises' IT budgets for the current year. As business confidence returns, the Group will launch these value-added services to capture the expected increase in spending on IT solutions.

- Develop short message service system
- A short message service system is currently under development. The system development is expected to be completed in August 2002. The Group intends to implement this system for its internal use initially as a tool for its customer service center to communicate to the Group's customers.

- Launch data center-related services in the PRC, such as co-location, through cooperation with ISP partners in the PRC
- The Group has not launched any data center-related services in the PRC yet in view of the over-supply of these services currently in the PRC market.

Network and facilities development

- Develop managed IP connections for VPN services in the United States, Japan and Singapore
- Completed. Indeed, the Group has also continued to develop managed IP connections with VPN service providers in the PRC during the first half of 2002 to collaborate with the increasing demand of VPN customers in the PRC.

• Establish interconnection with a local IP peering center in Japan	• The Group is currently focused on VPN services in Japan instead of IP peering. In addition, through direct arrangement with local fixed network carriers in Taiwan, the Group can route data and voice traffic originated from Taiwan for termination in Japan in a cost-effective way. Therefore, no IP peering center has been established in Japan.
• Establish an additional STM1 international circuit between Taiwan and Los Angeles on an IRU basis	• The Group has routed most data and voice traffic originated from Taiwan for termination in the United States through direct IP peering arrangement with local fixed network carriers in Taiwan. This strategy eliminates the necessity to establish an additional STM1 international circuit between Taiwan and Los Angeles, and is considered to be a more cost-effective approach to counteract the effect on bandwidth demand driven by the change of sales mix explained in *Note 1* under the section "USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING".

• Launch the second data center in Taipei County, Taiwan	• This project has been suspended in view of the currently weak market demand of data center services in Taiwan. The office premises originally reserved for the data center project will be leased to other third parties for office use commencing August 2002.

Sales and marketing strategy

• Commence marketing efforts for managed services	• Marketing for managed firewall services commenced in late June 2002
• Continue to focus on resellers and channel sales arrangements for communication and Internet access and related services	• The Group continues to develop new resellers and channel sales business partners to enable wider distribution network for its service offerings. Resellers and channel sales partners joining the Group during the period include XA TMI, Gemplex, Pacific Internet, HyperNet, Unisys, Data System, Leo System and Taiwan Fuji Xerox, etc.
• Continue to promote brand awareness of the Group's products and services	• The Group has launched print and airport billboard advertising in Taiwan for the Group's VPN services in March 2002. Print advertising for managed firewall services commenced in June 2002 in Taiwan.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The actual use of proceeds from the new issue of shares by way of placing on 8 January 2002 for the six months ended 30 June 2002 as compared to the planned amount set out in the Prospectus are listed below:

	Planned amount *US$'000*	**Actual use** *US$'000*
To fund network infrastructure expansion and upgrade by acquiring international bandwidth capacity on an indefeasible right of use basis	995	1,995 *(Note 1)*
To further expand the VPN business of the Group, to finance the construction of VPN demonstration rooms, develop partner programmes for VPN business in the regions, and to lease additional warehouse spaces for storage of customer premises equipment	765	765
To strengthen the Group's sales and customer servicing capabilities in the Greater China region and finance sales and marketing activities relating to new products and services	128	67
To finance general working capital of the Group	77	77
	1,965	2,904

Note 1:

The actual use of proceeds in network infrastructure expansion and upgrade during the six months ended 30 June 2002 comprised of:

	US$'000
Payment for the acquisition of international bandwidth capacity on an indefeasible right of use basis	870
Payment for the establishment of managed IP connections with VPN service providers in the PRC *(Note)*	809
Payment for the direct IP peering arrangement with local fixed network carriers in Taiwan *(Note)*	316
	1,995

The actual use of proceeds of US$1,995,000 for network and facilities development has exceeded the planned amount of US$995,000 during the six months ended 30 June 2002 (total amount of proceeds originally planned for network and facilities development for the two years ending 31 December 2003 was US$2.56 million or HK$20.00 million equivalent). The significant acceleration of the use of proceeds fox the six months ended 30 June 2002 was necessary to supplement the shortfall in working capital being generated from operating activities due to the unexpected significant decline in revenue from communication services and Internet access and related services during the same period.

Bandwidth usage for a customer of communication services and Internet access services is normally much higher than a customer of VPN services. Due to the drop of revenue and customer number in both communication services and Internet access and related services during the first half of 2002, management foresees that it is not necessary to upgrade most existing circuits in Taiwan to a higher bandwidth capacity, which was originally planned for implementation in the second half of 2002. Therefore, a major portion of the planned use of proceeds of approximately US$1.5 million (or HK$11.7 million equivalent) in network and facilities development in the second half of 2002 is no longer required. After careful evaluation on these relevant factors, the directors consider that the proceeds not yet utilized as at 30 June 2002, together with the Group's internally generated revenue, will be sufficient to finance the future network and facilities development of the Group.

Note: For more details on these business development, please refer to the descriptions under the heading "Network and facilities development" in the section "COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS".

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June 2002, the interest 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 are as follows:

Name of director	Personal Interests	Family Interests	Corporate Interests	Other Interests	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	1,134,528	–	–	–	1,134,528

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 30 June 2002, 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 30 June 2002, 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:

	Date of grant	Vesting period of share options	Exercise period of share options	Exercise price per share	Balance as at 1 January 2002	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 30 June 2002
				HK$					
Three 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	27 December 2001	8 July 2002 to 1 January 2004	8 July 2002 to 20 December 2011	0.70	520,000	-	-	-	520,000
Employees:									
113 employees	27 December 2001	8 July 2002 to 1 January 2004	8 July 2002 to 20 December 2011	0.70	10,411,000	-	-	1,524,000	8,887,000
Total					13,684,000	-	-	1,524,000	12,160,000

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 SDI Ordinance.

(2) Share Option Scheme

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

	Date of grant	Vesting period of share options	Exercise period of share options	Exercise price per share *HK$*	Balance as at 1 January 2002	Granted during the period	Exercised during the period	Lapsed during the period	Balance as at 30 June 2002
Three 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	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
Employees:									
216 employees	21 February 2002	1 January 2003 to 1 January 2005	1 January 2003 to 31 December 2005	1.212	-	22,335,000	-	3,410,000	18,925,000
Total					-	26,815,000	-	3,410,000	23,405,000

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 SDI Ordinance.

Value of the share options granted during the period is not disclosed as, in the directors opinion, no accurate value can be obtained under the existing pricing model.

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 30 June 2002, holders of over 10% of the Company's shares are as follows:

Name	Number of shares	Approximate percentage of shareholding
KA Land Pte Ltd. *(Note 1)*	143,802,864	26.81%
Mr. Tsai Jenp Luh *(Note 2)*	99,523,688	18.56%
Mr. Chang Hsiao Hui *(Note 3)*	103,140,752	19.23%

Notes:

1. KA Land Pte Ltd. is a wholly-owned subsidiary of Singapore Telecommunications Limited.

2. 99,305,288 shares are held by Mr. Tsai Jenp Luh personally and 218,400 shares are held by his spouse, Ms. Tu Wen Yueh. Mr. Tsai Jenp Luh is deemed to be interested in his spouse's shares under SDI Ordinance.

3. 99,628,984 shares are held by Mr. Chang Hsiao Hui personally and 3,511,768 shares are held by his spouse, Ms. Lin Huei Lin. Mr. Chang Hsiao Hui is 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 30 June 2002.

SPONSOR'S INTERESTS

Somerley Limited ("Somerley") has been appointed as sponsor of the Company in replacement of Anglo Chinese Corporate Finance, Limited for the period from 16 June 2002 to 31 December 2004, for which Somerley will receive a fee. As updated and notified by Somerley, neither Somerley nor any of its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the Company's share capital as at 8 August 2002.

Save as disclosed above, Somerley had no other interest in the Company as at 8 August 2002.

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 26.81% 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 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

Name of subsidiary	Shareholding interest	Nature of business	Place of operation
Singapore Telecom USA, Inc.	100%	Provision of administrative, technical and advisory services in the USA	The United States
SingTel Japan Co., Ltd.	100%	Engaged in telecommunication services business & 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 directors 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. Buay Kee Chuan	Directorship	Failsafe Corporation (Singapore) Pte Ltd.	Data centre and data centre-related services as well as disaster recovery services in Singapore
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 Rules. The audit committee comprises Mr. Buay Kee Chuan, a non-executive director, and Mr. Leung Man Kit and Mr. Chou Wen Pin, both are independent non-executive directors. Mr. Buay Kee Chuan has been appointed to the audit committee with effect from 28 March 2002. Mr. Leung Man Kit has been appointed as an independent non-executive director and an audit committee member in replacement of Mr. Chan Kok Chung with effect from 12 July 2002. 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 of the Company this unaudited half-yearly report for the six months ended 30 June 2002 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 2002.

BOARD PRACTICES AND PROCEDURES

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

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

Hong Kong, 8 August 2002