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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in doubt** as to any aspect of this document or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant, or other professional adviser.

**If you have sold or transferred** all your shares in **INFOSERVE TECHNOLOGY CORP.**, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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**MAJOR TRANSACTION**

**DISPOSAL OF TAIWAN ISR BUSINESS**

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This circular will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at [www.infoserve-group.com](http://www.infoserve-group.com).

11th December, 2003

\* For identification purpose only

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## CHARACTERISTICS OF GEM

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**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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“2003 Interim Report”	the interim report of the Company for the six-month period ended 30th June, 2003
“Announcement”	the announcement of the Company dated 27th November, 2003 in relation to, among others, an update on operating and financial positions of the Group and outstanding litigations
“associate(s)”	has the meaning given to it in the GEM Listing Rules
“ATM”	asynchronous transfer mode, a very high speed transmission technology. It is a high bandwidth, low-delay, connection-oriented, packet-like switching and multiplexing technique. The key difference between ATM and frame relay is that frame relay packets vary in size whereas each ATM cell is of a fixed size
“Board”	the board of Directors
“Board Meeting”	board meeting of the Company held on 7th August, 2003 to approve the Disposal Agreement and the transactions contemplated thereunder
“Company”	Infoserve Technology Corp., a company incorporated in the Cayman Islands with its Shares listed on the GEM board of the Stock Exchange
“Completion”	completion of the Disposal Agreement, which took place on 30th September, 2003
“Consideration”	NT\$30 million (approximately HK\$6.80 million), the consideration of the Disposal pursuant to the Disposal Agreement
“Directors”	the directors of the Company
“Disposal”	the disposal by the Vendor of the Taiwan ISR Business to the Purchaser as agreed under the Disposal Agreement
“Disposal Agreement”	the conditional sale and purchase agreement dated 12th August, 2003 entered into between the Vendor and the Purchaser in relation to the Disposal

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## DEFINITIONS

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“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“IP”	Internet Protocol, a set of rules that specifies how information/data packets should be addressed for transmission between computer systems
“ISR”	international simple resale, a business model whereby international carriers or service providers transmit capacity in bulk within a public network and resell it to customers
“Latest Practicable Date”	9th December, 2003, being the latest practicable date prior to the bulk print of this circular for ascertaining certain information herein
“Mr. Chang”	Mr. Chang Hsiao Hui, Michael, an executive Director
“Powertec” or the “Purchaser”	Powertec Co., Ltd. (寶潤企業有限公司), a company incorporated in Taiwan with limited liability and is independent of and not connected with the directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates
“Prospectus”	the prospectus of the Company dated 28th December, 2001
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Taiwan ISR Business”	provision of local and international long-distance call services and voice connection with mobile phone users to its corporate customers in Taiwan
“Vendor” or “Taiwan Subsidiary”	英普達資訊科技股份有限公司 (Infoserve Technology Corporation), a wholly-owned subsidiary of the Company operating in Taiwan
“VPN”	virtual private network, a network that functions as if it were private although it exists on public wires. Data is protected through encryption and other security mechanisms. VPN service providers define a virtual private network as a WAN of permanent virtual circuits, generally using ATM or frame relay to transport IP. VPN technology providers define a virtual private network as the use of encryption software or hardware to bring privacy to communications over a public data network
“WAN”	a geographically dispersed telecommunication network which covers areas such as cities, states and countries, a broader telecommunication structure than that of a MAN (a metropolitan area network)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“JPY”	Japanese dollars, the lawful currency of Japan
“NT\$”	New Taiwan dollars, the lawful currency of Taiwan
“S\$”	Singaporean dollars, the lawful currency of Singapore

*In this circular, the foreign currency amounts have been converted as follows:*

NT\$4.409 = HK\$1.0

US\$1.0 = HK\$7.8

S\$1.0 = HK\$4.54

JPY1.0 = HK\$0.0724

**IS INFOSERVE®**  
**INFOSERVE TECHNOLOGY CORP.**

**英普達資訊科技公司\***

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

*Directors:*

Yu Shu Kuen (*Chairman*)

Chang Hsiao Hui, Michael

Tsai Tun Chi (*Executive Director*)

Tsai Jenp Luh (*Non-executive Director*)

*Registered office:*

2/F., Cayside, Harbour Drive

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SMB

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Cayman Islands

British West Indies

*Head office and principal*

*place of business:*

11/F, Ying Kwong Mansion

2-6 Yee Woo Street

Causeway Bay

Hong Kong

11th December, 2003

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION**

**DISPOSAL OF TAIWAN ISR BUSINESS**

**INTRODUCTION**

On 30th September, 2003, the Company announced that its wholly-owned subsidiary operating in Taiwan has agreed to sell to Powertec, a company incorporated in Taiwan and an independent third party, its Taiwan ISR Business at an aggregate cash consideration of NT\$30 million (approximately HK\$6.80 million). The Consideration has been fully paid by the Purchaser and Completion has taken place on 30th September, 2003.

\* For identification purpose only

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## LETTER FROM THE BOARD

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According to the 2003 Interim Report, the Group had an unaudited net liabilities of approximately US\$4,684,000 (approximately HK\$36.5 million) as at 30th June, 2003. Accordingly, the Disposal Agreement constitutes a major transaction of the Company pursuant to Rule 19.06 of the GEM Listing Rules and is subject to the approval of the Shareholders pursuant to Rule 19.38 of the GEM Listing Rules.

KA Land Pte Ltd., Mr. Tsai Jenp Luh and Mr. Chang, being the Shareholders interested in approximately 59.6% of the issued share capital of the Company and have no interest in the Disposal, have given written consent to the Company to approve the Disposal Agreement pursuant to Rule 19.39 of the GEM Listing Rules. As such, no extraordinary general meeting of Shareholders will be held for the purpose of approving the Disposal which has been completed.

Reference is made to the announcements of the Company dated 21st October, 2003 and 27th November, 2003 in relation to, among others, delay in despatch of this circular. Given Mr. Chang's withdrawal of a support to the Group and the fact that the whole accounting team of Taiwan Subsidiary has left as mentioned below, extra time is needed for finalising the financial information for inclusion in this circular. Accordingly, the Company has applied to the Stock Exchange from Rule 19.38 of the GEM Listing Rules for further extension of the deadline for despatch of this circular from 11th November, 2003 to 11th December, 2003.

The purpose of this circular is to provide the Shareholders with further information relating to the Disposal. This circular also contains information in compliance with the GEM Listing Rules.

### THE DISPOSAL AGREEMENT

Date: 12th August, 2003

#### Parties

Vendor: 英普達資訊科技股份有限公司 (Infoserve Technology Corporation), a wholly-owned subsidiary of the Company operating in Taiwan

Update on the financial and operating position of the Vendor is set out in the section headed "Business Review and Prospects" in this circular.

Purchaser: Powertec Co., Ltd. (寶潤企業有限公司), a limited liability company incorporated in Taiwan, is owned by two individuals who are interested in 70% and 30% respectively in the registered capital of Powertec. Each of Powertec and its beneficial owners is independent of and not connected with the directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates.

Save for the Disposal Agreement, the Purchaser has no other business relationship with the Group. As far as the Directors are aware, the Purchaser is principally engaged in the sales of software and electronic materials, configuration of computer equipments and international trading.



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## LETTER FROM THE BOARD

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### **Business to be disposed**

The Purchaser has agreed to acquire and the Vendor has agreed to dispose of its Taiwan ISR Business which means provision of local and international long-distance call services and voice connection with mobile phone users to its corporate customers in Taiwan. The Taiwan ISR Business that is subject to the Disposal includes revenues starting from the month of September 2003, customer accounts and equipment necessary for operating the Taiwan ISR Business. The Vendor has informed the customers of the Taiwan ISR Business of the Disposal. The customers may decide whether or not to continue using the services covered by the Taiwan ISR Business. There is no trademarks or patents relating to the Taiwan ISR Business and accordingly, no trademarks or patents will be transferred or licensed to the Purchaser as a result of the Disposal. The Vendor has also agreed to assist the Purchaser to set up its own billing system, accounting system, customer service system and debt collection system for the Taiwan ISR Business and to assist the Purchaser to apply for the Type II telecommunication business licence in Taiwan (the "Required Licence"), which is the only licence required for operating the Taiwan ISR Business. As at the Latest Practicable Date, the Company is unable to ascertain whether the Purchaser has obtained the Required Licence with the assistance of the Taiwan Subsidiary. The Vendor has also agreed to operate, free of charge, the Taiwan ISR Business for and on behalf of the Purchaser for one year commencing from the first day of the month immediately following Completion; thereafter, the Purchaser may engage the Vendor to provide the same services at a monthly service fee calculated on the basis of 5% of the monthly turnover generated from the Taiwan ISR Business.

### **Conditions**

Completion of the Disposal Agreement is subject to the following conditions:

- (i) the passing of the necessary resolutions by the Board and the Shareholders to approve the Disposal Agreement and the transactions contemplated thereunder;
- (ii) the passing of the necessary resolutions by the board of directors of the Vendor to approve the Disposal Agreement and the transactions contemplated thereunder;
- (iii) all necessary consents and approvals (including but not limited to any matters relating to the trading of the Shares on the Stock Exchange) having been obtained from the Stock Exchange in connection with the transactions contemplated under the Disposal Agreement; and
- (iv) the transactions as contemplated under the Disposal Agreement do not violate any relevant laws and regulations.

The Disposal Agreement has been approved by the board of directors of each of the Company and the Vendor. KA Land Pte Ltd, Mr. Tsai Jenp Luh and Mr. Chang who in aggregate hold approximately 59.6% of the issued share capital of the Company and have no interest in the Disposal have given their written consent to the Company to approve the Disposal Agreement and the transactions contemplated thereunder. All the other conditions precedent to the Disposal Agreement have also been fulfilled and Completion has taken place on 30th September, 2003.

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## LETTER FROM THE BOARD

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### Consideration

The consideration for the Disposal Agreement is NT\$30 million (approximately HK\$6.80 million), inclusive of business tax chargeable at 5% which shall be borne by the Vendor. NT\$27.6 million (approximately HK\$6.3 million) has been paid by the Purchaser by the end of August 2003 and the remaining balance of NT\$2.4 million (approximately HK\$0.5 million) was paid in September 2003. In consideration for the full payment of the Consideration prior to Completion by the Purchaser, the Company agreed that the Purchaser was entitled to the revenue from the Taiwan ISR Business starting from the month of September 2003. The Purchaser shall be responsible for the network cost incurred for running the Taiwan ISR Business starting from the month of September 2003. The Vendor is entitled to the revenue from the Taiwan ISR Business up to and including the month of August 2003.

The Consideration is determined after arm's length negotiation between the Vendor and the Purchaser and is determined with reference to the aggregate unaudited gross profits of approximately NT\$25 million (approximately HK\$5.67 million) generated from the Taiwan ISR Business for the five-month period covering the months of January and March to June of 2003 (the "Relevant Period"). The unaudited gross profits generated in the month of February 2003 has not been taken into account due to the long public holiday therein. The Consideration has an excess of approximately HK\$6.5 million over the unaudited net asset value of the Taiwan ISR Business as at 31st July, 2003 of approximately HK\$0.3 million.

The Consideration is subject to adjustment in the following manner:

- (1) Pursuant to the Disposal Agreement, the Purchaser is entitled to conduct a due diligence review of the Taiwan ISR Business after signing of the Disposal Agreement. Such review shall be completed on or before 31st October, 2003. Upon completion of such due diligence review, in the event that the average monthly gross profits of the Taiwan ISR Business for the Relevant Period exceeds or falls short of NT\$5 million (approximately HK\$1.13 million) by more than 5% (the "Relevant Amount of Profits"), the Consideration will be adjusted upwards or downwards by the same monetary amount of the Relevant Amount of Profits. No adjustment to the Consideration will be made if the Purchaser fails to complete the aforesaid due diligence review and submit the relevant due diligence report to the Vendor on or before 31st October, 2003; or
- (2) In the event that the revenue for the month immediately following Completion (the "First Month Revenue") exceeds or falls short of NT\$10 million (approximately HK\$2.27 million) by more than 5% (the "Relevant Amount of Revenue"), the Consideration will be adjusted upwards or downwards by the same monetary amount of the Relevant Amount of Revenue provided that such adjustment request is made within 5 days after the end of the next month immediately following the Completion; or
- (3) In the event that the bad debts (which means any accounts receivables that remain uncollectable after the 60th day from billing) arising from the First Month Revenue is higher than 3%, the Consideration shall be reduced by the same monetary amount that represents the actual bad debts in excess of the agreed 3% provided that such adjustment request is made within 65 days after the end of the next month immediately following the Completion.

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## LETTER FROM THE BOARD

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In general, approximately 80% of the Group's accounts receivable are settled within 60 days. The above-mentioned 3% and the 60th day for defining bad debts are agreed between the Vendor and the Purchaser with reference to the settlement history of the Group's accounts receivables.

As at the Latest Practicable Date, due to the current situation of the Company as set out in the section headed "Business Review and Prospects" below, the Company is unable to ascertain with the Taiwan Subsidiary as to whether there should be any adjustments to the Consideration.

### **Non-competition undertaking**

Each of the Vendor and the Purchaser has unconditionally and irrevocably undertaken that, within one year from the date of the Disposal Agreement, it will not, and will procure its subsidiaries and associated companies not to, directly or indirectly, recruit or solicit (i) any suppliers, customers or other business partners; and (ii) any employers, directors, senior management, executives, consultants or technicians of the other party to the Disposal Agreement.

### **Reasons for the Disposal**

As stated in the Prospectus and published accounts to Shareholders, the Group is principally engaged in (i) communication services including facsimile, the Taiwan ISR Business and other voice and basic communication services; (ii) Internet access and related services; and (iii) VPN and other solutions services.

Communication services (which include the Taiwan ISR Business) and Internet access services are the basic services while VPN and other solutions services are the more sophisticated services and require more advanced technology to implement. It is the Group's stated policy in the Prospectus to advance into the more sophisticated servicing sector. The Group has worked in line with that strategy and over the past financial years, VPN business has become an increasing business segment of the Group while revenue from communication service and Internet access and related services recorded a continuous decline.

It was intended at the time of the execution of the Disposal Agreement that the Group might, subsequent to the Disposal, focus its resources on its VPN business in the Greater China market where the Group sees increasing demand for VPN from cross-border operations, which was in line with its strategy as set out in the Prospectus. The use of IPO proceeds and the business plan of the Group (the "Business Plan"), which covers the period from around the issue of the Prospectus in December 2001 up to and including December 2003, as stated in the Prospectus will not change merely as a result of the Disposal. The Business Plan has been substantially implemented and the proceeds raised from the public offering of the Shares in around December 2001 have been fully utilised in the manner as set out in the Prospectus, except for certain adjustments arising from reasons as fully explained in the Group's published financial reports to the Shareholders.

The Taiwan ISR Business accounted for approximately 17.9% of the Group's total revenues for the six months ended 30th June, 2003. Following the Completion on 30th September, 2003, the Group had intended to continue to provide other communication services, Internet access and related services and VPN and other solutions services with the additional working capital generated from the Disposal. However, the Group's operating and cashflow position experienced an unexpected change since November

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## LETTER FROM THE BOARD

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2003 as a result of the events more fully set out in the Announcement and under sections headed “Business Review and Prospects” below. Shareholders should refer to the Announcement and the aforesaid section for a better picture of the current financial and operating position of the Group.

The Disposal has been approved by the Board at the Board Meeting at which the Directors considered that the terms of the Disposal were fair and reasonable and the Disposal was in the interests of the Shareholders as a whole, having taken into account in particular the payment schedule offered by the Purchaser and the then financial position of the Group.

### **Use of proceeds**

The gross proceeds from the Disposal is approximately HK\$6.8 million. The net proceeds of approximately HK\$6.2 million after deducting the expenses and tax incidental to the Disposal of approximately HK\$0.6 million has been used to repay outstanding network cost to network service providers.

### **Financial effect of the Disposal**

Based on the unaudited net asset value of the Taiwan ISR Business of approximately HK\$0.3 million as at 31st July, 2003 and taking into account of the net proceeds of approximately HK\$6.2 million as mentioned above, a net gain of approximately HK\$5.9 million would be recognised in the consolidated income statements of the Group.

## **BUSINESS REVIEW AND PROSPECTS**

Set out below is the operating and financial position of the Group updated to the Latest Practicable Date:

### **(a) Taiwan Subsidiary**

#### *(i) Suspension of business operation*

Due to the cashflow problems and unpaid payroll for about four months, all Taiwan staff do not report duty. The operation has been gradually suspended since 14th November, 2003 due to the staff leave and disconnection of services by network services providers in Taiwan. All the three directors and supervisor of Taiwan Subsidiary have rendered resignation on 29th and 30th October, 2003 respectively. The Group is seeking legal advice on possible remedial actions.

#### *(ii) Issue of injunction order by the Taiwan Court*

The Group’s worsened cashflow situation is triggered by the issue of an injunction order by the Taiwan Court which makes it difficult for the Group to collect trade receivables from its major customers in Taiwan, in which the Group’s operation is principally based.

Taiwan Subsidiary is in dispute with two former sales executives (the “Former Employees”) as to the outstanding amount of salary due to them. The Former Employees claim against Taiwan Subsidiary in aggregate approximately NT\$2 million, approximately

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## LETTER FROM THE BOARD

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HK\$0.45 million (the “Alleged Claim”). The Former Employees obtained an injunction order (the “Injunction Order”) from the Taiwan Court whereby several major customers of the Taiwan Subsidiaries are ordered not to pay to Taiwan Subsidiary in aggregate of an amount equals to the Alleged Claim which would otherwise be payable to Taiwan Subsidiary. As Taiwan Subsidiary is unable to collect trade receivables from its major customers, several post-dated cheques issued by Taiwan Subsidiary were dishonoured. Consequently, banks in Taiwan refused to discount post-dated cheques received by Taiwan Subsidiary from its other customers (who are not subject to the Injunction Order). This inhibits the liquidity and thereby the operation of Taiwan Subsidiary. The Company is not aware of any other legal actions taken by the Former Employees against the Group.

The Group is seeking legal advice on the release of the Injunction Order which can be done by depositing cash in an amount which equals to the Alleged Claim with the Taiwan Court. It is estimated that the total trade receivables being held up by those customers who are subject to the Injunction Order amount to approximately NT\$15 million, approximately HK\$3.40 million, as of 4th November, 2003.

The Group is seeking legal opinion on negotiating with network providers on instalment payments of outstanding payables over the coming 12 months so as to ensure continuity of services to its customers in Taiwan, Hong Kong and PRC. No written agreement has been concluded as at the Latest Practicable Date.

*(iii) Resignation of the whole accounting team in Taiwan*

The financial controller (the “Taiwan Financial Controller”) and the whole accounting team under her supervision have left Taiwan Subsidiary with effect from 11th November, 2003. The Group has difficulty in accessing to certain post-dated cheques. According to the Taiwan Financial Controller’s email on 4th November, 2003, such post-dated cheques have an aggregate value of approximately NT\$15 million, approximately HK\$3.40 million and were kept in the safe in the office of Taiwan Subsidiary. The Company considers it more appropriate to open the safe and count the post-dated cheques therein in front of the Taiwan Financial Controller or an independent party. The Company has not yet been able to fix a meeting with the Taiwan Financial Controller for the aforesaid purpose. The Group is discussing with its legal adviser on the proper procedures that it needs to take in order to gain access to those post-dated cheques and will continue to try to contact with the Taiwan Financial Controller on the proper handover of the books and records of Taiwan Subsidiary.

**(b) Hong Kong operation**

The operation has been gradually suspended since on or about 14th November, 2003 due to non-payment of costs to network services providers in Hong Kong and China. The operation would resume upon payment of outstanding cost.

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## LETTER FROM THE BOARD

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### (c) Japan operation

The Japan subsidiary is not material and currently has one contact on hand providing communication services on voice with monthly revenue of around JPY1.0 million (or approximately HK\$72,400).

### (d) Singapore operation

The Singapore subsidiary mainly provides communication services on data and voice transmission. There is no local staff in Singapore where the operation is outsourced to an independent third party in return for franchise fees up to 31st December, 2005. The franchise fees comprise fixed fee and variable fee calculated at a percentage of revenue generated from the Singapore operation, subject to a minimum revenue. The fixed franchise fee for the year of 2003 is S\$110,000 (or approximately HK\$499,400) and the variable fee for the same year will be not less than S\$107,500 (or approximately HK\$488,050).

### (e) The Group

Reference is made to the announcement of the Company dated 30th September, 2003 whereby the Board informed, among others, that the Group had been operating under tight cashflow position, but would be able to continue its normal operation in reliance of, among others, the agreement of Mr. Chang to provide financial support to the Group for the next 12 months (the "Financial Support Letter").

The Financial Support Letter was given by Mr. Chang in connection with the review of the Group's consolidated accounts for the six months ended 30th June, 2003.

The Company was notified by Mr. Chang on 6th November, 2003 that he is no longer able to continue to provide financial support to the Group in view of the Group's financial position.

The Board considers that Mr. Chang's withdrawal of financial support has adverse impact on the operating and financial position of the Group. The Board is considering solutions to solve the cashflow problems of the Group, which may include various fund raising alternatives. However, the Company has not formulated any specific plan to tackle the situation.

Reference is made to the announcement of the Company dated 8th December, 2003. The Company recently has difficulty in reaching Mr. Chang who is not contactable since 14th November, 2003. Accordingly, the Board has resolved to appoint Mr. Yu Shu Kuen to replace Mr. Chang as the compliance officer and authorized representative of the Company with effect from 5th December, 2003.

## GENERAL

The Group is principally engaged in (i) communication services including facsimile, the Taiwan ISR Business and other voice and basic communication services; (ii) Internet access and related services; and (iii) VPN and other solutions services.

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## LETTER FROM THE BOARD

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According to the 2003 Interim Report, the Group had an unaudited net liabilities of approximately US\$4,684,000 (approximately HK\$36.5 million) as at 30th June, 2003. Accordingly, the Disposal Agreement constitutes a major transaction of the Company pursuant to Rule 19.06 of the GEM Listing Rules and is subject to the approval of the Shareholders pursuant to Rule 19.38 of the GEM Listing Rules.

KA Land Pte Ltd., Mr. Tsai Jenp Luh and Mr. Chang, being the Shareholders interested in approximately 59.6% of the issued share capital of the Company and have no interest in the Disposal Agreement, have given written consent to the Company to approve the Disposal pursuant to Rule 19.39 of the GEM Listing Rules. As such, no extraordinary general meeting of Shareholders will be held for the purpose of approving the Disposal.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,  
By Order of the Board  
**Infoserve Technology Corp.**  
**Yu Shu Kuen**  
*Chairman*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors (excluding Mr. Chang who is not contactable since 14th November, 2003) collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors (excluding Mr. Chang), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

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

## 2. DIRECTORS' INTERESTS IN SHARE CAPITAL

As at the Latest Practicable Date, 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 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 <i>(Note 1)</i>	–	–	99,523,688
Mr. Chang	99,628,984	3,511,768 <i>(Note 2)</i>	–	–	103,140,752

*Notes:*

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



Save as disclosed above, as at the Latest Practicable Date, 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 the Latest Practicable Date, 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 the Latest Practicable Date
<i>Directors:</i>									
Mr. Chang	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. 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
94 Other employees	27 December 2001	8 July 2002 to 1 January 2004	8 July 2002 to 20 December 2011	0.70	8,102,000	-	-	3,436,000	4,666,000
Total 96 employees					<u>10,855,000</u>	<u>-</u>	<u>-</u>	<u>3,436,000</u>	<u>7,419,000</u>

#### *Note:*

- Options to subscribe for 1,136,000 Shares are granted to Mr. Chang 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) 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 Latest Practicable Date
<i>Directors:</i>									
Mr. Chang	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. 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
164 Other employees	21 February 2002	1 January 2003 to 1 January 2005	1 January 2003 to 31 December 2005	1.212	15,665,000	-	-	5,720,000	9,945,000
Total 166 employees					<u>18,745,000</u>	<u>-</u>	<u>-</u>	<u>5,720,000</u>	<u>13,025,000</u>

*Note:*

- Options to subscribe for 1,500,000 Shares are granted to Mr. Chang 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.

### 3. SUBSTANTIAL SHAREHOLDER

As at the Latest Practicable Date, in addition to those interests as disclosed under the paragraph headed "Directors' interests in share capital" in this Appendix, 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:*

- KA Land Pte Ltd. is a wholly-owned subsidiary of Singapore Telecommunications Limited.
- The 182,802,864 Shares comprise 143,802,864 ordinary Shares directly held by KA Land Pte Ltd. 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 Pte Ltd.

Save as disclosed above, as at the Latest Practicable Date, 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.

#### **4. COMPETING BUSINESS**

As at the Latest Practicable Date, none of the directors, management shareholders of the Company (as defined in the GEM Listing Rules) and their respective associates are interested in any business that competes with or is likely to compete with the business of the Group.

#### **5. INDEBTEDNESS**

##### **Borrowings**

As at 30th September, 2003, being the latest practical date for the purpose of this indebtedness statement prior to the printing of this circular, the Group has total outstanding borrowings of approximately US\$14,023,000, comprising unsecured bank overdraft of approximately US\$119,000, unsecured bank and other borrowings of approximately US\$1,984,000, secured bank and other borrowings of approximately US\$6,515,000, advances from directors of approximately US\$1,287,000, convertible notes to a substantial shareholder of approximately US\$1,000,000 and obligations under finance leases of approximately US\$3,118,000. The Group's secured bank borrowings were secured by charges on the bank deposits and certain assets of the Group. The Group has not given any guarantees to the bankers for obtaining the banking facilities. In addition, the Group has contingent liabilities in the sum of approximately US\$498,000 in respect of claims arising from the litigations with China Unicom International Limited ("China Unicom") and Wing Siu Company Limited ("Wing Siu") respectively. Also, there are other claims in aggregate of approximately US\$203,000 from former employees and two of vendors of the Taiwan Subsidiary. Further details of these litigations are set out in the section headed "Litigations" in this Appendix.

All amounts referred to in this indebtedness statement which are denominated in foreign currencies have been translated into Hong Kong dollars at the relevant rates of exchange prevailing at the close of business on 30th September, 2003.

##### **Capital commitments**

As at 30th September, 2003, the Group had no capital commitments.

##### **Pledge of assets**

As at 30th September, 2003, bank deposits and land and buildings totaling approximately US\$2,818,000 and US\$3,818,000 respectively were pledged to banks for securing the credit facilities granted to the Company's Hong Kong subsidiary and the Taiwan Subsidiary. The amount drawdown under such facilities as of 30th September, 2003 was approximately US\$6,515,000.

**Basis of preparation**

The above indebtedness statement is prepared on the basis of the Group's accounting books and records and other relevant information on hand and to the best knowledge of the Directors.

**However, the Company is unable to ascertain the completeness and accuracy of the indebtedness position of the Group. As disclosed in the Announcement, the Group has difficulties to access the accounting records of the Taiwan Subsidiary. As a result, the Group is unable to ascertain, apart from intra-group liabilities, if there is as at 30th September, 2003 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans and other similar indebtedness, liabilities under acceptance or acceptable credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities. The accuracy and completeness of the above information given under the paragraphs headed "Borrowings", "Capital Commitment" and "Pledge of assets" should be read with regard to the aforesaid limitation. The Company will make further announcements if it becomes aware of any material information as regards the indebtedness position of the Group as and when appropriate.**

**6. WORKING CAPITAL**

As mentioned in the section headed "Business Review and Prospects" in the Letter from the Board in this circular, the Taiwan and Hong Kong operations have been ceased due to unpaid payroll and network costs. The only remaining active business of the Group is its operations in Singapore where the working capital is self-sufficient.

The current financial position of the Group cannot be ascertained due to the resignation of the whole accounting team in Taiwan Subsidiary, which is the Group's major operating unit. In particular, the Directors are unable to ascertain the completeness and accuracy of indebtedness of approximately US\$14,023,000 as detailed in section headed "Indebtedness" above or to ascertain at this stage the outcome of the current litigation against the Group in the aggregate sum of approximately US\$701,000 as detailed in section headed "Litigations" below.

As set out in the announcement of the Company dated 30th September, 2003, the Board explained that the Group has been operating under tight cashflow position, but would have been able to continue its normal operation in reliance of, among others, the agreement of Mr. Chang, the executive Director of the Company, to provide financial support to the Group for the next 12 months. The Financial Support Letter was given by Mr. Chang in connection with the review of the Group's consolidated accounts for the six months ended 30th June, 2003. However, the Company was notified by Mr. Chang on 6th November, 2003 that he is no longer able to continue to provide financial support to the Group.

Following the withdrawal of financial support by Mr. Chang, the Directors are of the opinion that the Group does not have sufficient working capital for its present requirements or for settlement of its outstanding liabilities, the exact amount cannot be ascertained with certainty due to the reasons stated above. The Board is considering solutions to solve the cashflow problems of the Group, which may include various fund raising alternatives. However, the Company has not formulated any specific plan to tackle the situation. Further announcement will be made in this regard as and when appropriate.

## 7. LITIGATIONS

### **China Unicom International Ltd.**

Reference is made to the announcement of the Company dated 30th September, 2003 in relation to, among others, information on the litigation of the Group whereby the Board informed that the Company, together with its subsidiaries, Infoserve Technology Hong Kong Limited. (“Infoserve HK”), and Mr. Tsai Jenp Luh alias Tsai Phil also known as Tsai Jenp Lun Phil and Tsai J L Phil, was on 20th August, 2003 served a high court writ dated 19th August, 2003 by China Unicom regarding money owing in the sum of HK\$3,555,593.12 (approximately US\$455,000) (the “Claimed Amount”) together with interest and legal costs.

The Company has on 19th September, 2003 filed a defence and counter claim on the ground of technical defects. Unicom has filed reply to the Company’s counter claim on 12th November, 2003 and fixed a hearing on 1st December, 2003. The hearing has been extended for three weeks pending for submission of documents. Further announcement will be made by the Company as and when required under the GEM Listing Rules.

### **Wing Siu Company Ltd.**

Infoserve HK, a wholly-owned subsidiary of the Company, was on 20th October, 2003 served a district court judgement dated 17th October, 2003 by Wing Siu, the landlord of the Group’s previous principal place of business in Hong Kong, an independent third party to the Group, regarding money owing in the sum of HK\$332,938.40 (approximately US\$43,000) (the “Debts”) together with interest and legal costs. The Debts was alleged to be the rents, rates and management fee for the previous principal place of business in Hong Kong, due from Infoserve HK to Wing Siu since June 2003 up to 25th September, 2003.

Infoserve HK has offered settlement plan to Wing Siu but has been rejected. On 10th November, 2003, Wing Siu filed petition for winding up against Infoserve HK. Infoserve HK is seeking legal opinion on the petition. The turnover in Hong Kong accounted for just approximately 3% of the Group’s total revenue for the year ended 31st December, 2002 and Infoserve HK had unaudited net liabilities of approximately HK\$49.58 million as at 30th September, 2003, which partly arose from a written off of HK\$12 million prepaid network cost in the financial year of 2002. In the event that Infoserve HK is being wound up, the immaterial turnover, scale of operation together with its net liabilities position would have no material impact on the financial and operating position of the Group. Further announcement will be made by the Company as and when required under the GEM Listing Rules.

**Other claims**

In addition to the approximately NT\$2 million (approximately HK\$0.45 million) Alleged Claim from the Former Employees, Taiwan Subsidiary has received claims for outstanding payments from 3 other former staff and 2 creditors in respect of about NT\$5 million, approximately HK\$1.13 million. The Group is seeking legal opinion in this regard.

Save as disclosed above, no member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

**8. SERVICE CONTRACTS**

None of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

**9. MATERIAL CONTRACTS**

The following contracts, not being contracts in the ordinary course of business, have been entered into by the Group within two years preceding the Latest Practicable Date or may be material:

- i) Disposal Agreement;
- ii) the Company, certain directors, management shareholders and employees of the Company entered into a subscription agreement dated 16th September, 2002 for the subscription of 39,000,000 new Shares of the Company for cash at HK\$0.20 per share at a total consideration of HK\$7,800,000. Details are set out in the circular of the Company dated 4th October, 2002; and
- iii) a conditional subscription agreement dated 29th November, 2002 entered into between the Company, KA Land Pte Ltd., Mr. Chang and Mr. Tsai Jenp Luh in relation to the subscription by KA Land Pte Ltd. for the convertible notes of an aggregate principal amount of HK\$7.8 million issued by the Company. Details are set out in the circular of the Company dated 20th December, 2002.

**10. FORMER SPONSOR'S INTERESTS**

Reference is made to the Announcement. Somerley Limited ("Somerley"), the retained sponsor of the Company, has served a written notice of termination to the Company in accordance with the sponsor agreement dated 17th May, 2002 entered into with the Company. Somerley ceased to act as the Company's sponsor as from 6th December, 2003.

Prior to its resignation, Somerley was appointed as sponsor of the Company in return for a monthly retainer fee. In addition, Somerley is employed as the Company's financial adviser in connection with (i) general advisory on certain proposed transactions of the Company in 2002; (ii) the announcement of Company dated 30th September, 2003 in relation to the change of personnel of the Company; and (iii) the Disposal, and has received 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 the Latest Practicable Date.

Save as disclosed above, Somerley has no other interest in the Company as at the Latest Practicable Date.

The Company is currently still in the progress of actively looking for a replacement sponsor. Further announcement will be made in this regard.

## 11. GENERAL

- (a) The registered office of the Company is at 2/F., Cayside, Harbour Drive, P.O. Box 30592, SMB, George Town, Grand Cayman, Cayman Islands, British West Indies and the head office and principal place of business of the Company is at 11/F., Ying Kwong Mansion, 2-6 Yee Woo Street, Causeway Bay, Hong Kong. The share registrar and transfer office of the Company is Hong Kong Registrars Limited at Rooms 1901-5, 19/F., Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (b) The Compliance Officer of the Company is Mr. Yu Shu Kuen. Mr. Yu had worked in the investment banking field in Hong Kong about 2 years and went to start his own financial services business in 1996.
- (c) The Company Secretary and the Qualified Accountant of the Company is Mr. Chu Kin Wang, Peleus. Mr. Chu graduated from the University of Hong Kong with master degree in business administration. He is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants, an associate member of Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators. He has 16 years of experience in finance and management including working for Guangdong Investment Limited, a company listed on the Mainboard of the Stock Exchange.
- (d) Mr. Leung Man Kit and Mr. Chou Wen Pin resigned as independent non-executive directors of the Company and audit committee members of the Company with effect from 7th and 10th November, 2003 respectively. as set out in the announcement of the Company dated 27th November, 2003.

Pursuant to Rule 5.25 of the GEM Listing Rules, the duties of the audit committee must comprise at least the following matters:

- (1) reviewing, in draft form, the issuer's annual report and accounts, half-year report and quarterly reports and providing advice and comments thereon to the Company's board of directors. In this regard:
  - (a) members of the committee must liaise with the Company's board of directors, senior management and the person appointed as the Company's qualified accountant and the committee must meet, at least once a year, with the Company's auditors; and
  - (b) the committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance officer or auditors; and
- (2) reviewing and supervising the Company's financial reporting and internal control procedures.

The Company currently has no independent non-executive director and no audit committee member and hence is not in compliance with Rule 5.05 and 5.23 of the GEM Listing Rules. The Company is actively looking for replacement who have experience in serving as director of listed companies in Hong Kong. The Company has applied for wavier of one month to comply with Rule 5.05 and 5.23 of the GEM Listing Rules. As at the Latest Practicable Date, the Company has yet to identify any suitable candidate. Further announcement will be made in this regard.

- (e) Dealings in Shares may be settled through CCASS and investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangement and how such arrangements will affect their rights and interests.
- (f) Save as disclosed in this circular, the Directors are not aware of any person who was, as at the Latest Practicable Date, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including options in respect of such capital) carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries.
- (g) Save as disclosed in this circular:
  - a. none of the Directors has any direct or indirect interest in any assets which have been, since 31st December, 2002, the date to which the latest published audited financial results of the Company were made up, to the Latest Practicable Date, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and



- b. none of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

(h) The English text of this circular shall prevail over the Chinese text.

## 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company at 11/F., Ying Kwong Mansion, 2-6 Yee Woo Street, Causeway Bay, Hong Kong during normal business hours on any weekday other than public holidays, from the date of this circular up to and including 27th December, 2003:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the prospectus dated 28th December, 2001 of the Company;
- (c) the material contract referred to in the section headed “Material Contracts” of this Appendix; and
- (d) the annual reports of the Company for the years ended 31st December, 2001 and 31st December, 2002, the first quarterly report for the three months ended 31st March, 2003 and the 2003 Interim Report.