



Infoserve Technology Corp.

(Incorporated in the Cayman Islands with Limited Liability)



2003

Third Quarterly
Report



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

- Saved for those disclosed in the announcements of the Company, among other things, the financial information incorporated in this report is subject to uncertainty due to the resignation of whole accounting team in Taiwan subsidiary, which is the main operating unit of the Group. The Company cannot reach Mr. Chang Hsiao Hui, who is an executive director residing in Taiwan, since 14th November, 2003 for obtaining information on business, operation and financials. There is no review by audit committee as the two independent non-executive directors as well as audit committee members have resigned with effect from 7th and 10th November 2003 respectively. The Company is still at present actively recruiting suitable personnel to fill the vacancy of independent non-executive directors and audit committee members. Further announcement will be made by the Company as and when required by the rules governing the listing of securities on the GEM board of Hong Kong Stock Exchange.
- Turnover for the three months ended 30 September 2003 amounted to US\$4,015,000, represented a decrease of 41.9% over the corresponding period of US\$6,916,000 in 2002.
- Turnover for the nine months ended 30 September 2003 amounted to US\$15,751,000, represented a decrease of 14.7% over the corresponding period of US\$18,457,000 in 2002.
- Net profit for the three months ended 30 September 2003 increased to US\$343,000 from a loss of US\$510,000 of the corresponding period in 2002.
- Net loss for the nine months ended 30 September 2003 narrowed by 35.7% to US\$2,924,000 from US\$4,547,000 of the corresponding period in 2002.
- Basic profit per share for the three months ended 30 September 2003 was 0.06 US cents, increased from the corresponding period of loss 0.10 US cents in 2002.
- Basic loss per share for the nine months ended 30 September 2003 was 0.51 US cents, represents an approximately 40.0% decrease over the corresponding period of 0.85 US cents in 2002.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2003.



UNAUDITED CONSOLIDATED RESULTS

The board (the "Board") of directors (the "Directors") of Infoserve Technology Corp. (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the nine months ended 30 September 2003 together with the unaudited comparative figures for the corresponding period in 2002.

	NOTES	Three months ended		Nine months ended	
		30.9.2003 US\$'000 (Unaudited)	30.9.2002 US\$'000 (Unaudited)	30.9.2003 US\$'000 (Unaudited)	30.9.2002 US\$'000 (Unaudited)
Turnover	3	4,015	6,916	15,751	18,457
Network operation and telecommunication costs		(2,166)	(3,051)	(9,262)	(9,305)
Gross profit		1,849	3,865	6,489	9,152
Other revenue		275	29	462	44
Gain on disposal of ISR business		769	-	769	-
Advertising and promotion expenses		(13)	(63)	(13)	(130)
Staff costs		(784)	(1,525)	(3,680)	(5,173)
Operating lease rentals in respect of machinery and equipment		(367)	(927)	(1,521)	(2,818)
Occupancy expenses		(229)	(653)	(822)	(2,033)
Depreciation and amortisation of property, plant and equipment		(501)	(598)	(1,558)	(1,846)
Provision for early termination of tenancies		-	-	(68)	-
Other operating expenses		(440)	(492)	(2,356)	(1,295)
Profit/(loss) from operations		559	(364)	(2,298)	(4,099)
Finance costs		(216)	(146)	(626)	(448)
Profit/(loss) before taxation		343	(510)	(2,924)	(4,547)
Taxation	4	-	-	-	-
Net profit/(loss) for the period		343	(510)	(2,924)	(4,547)
Profit/(loss) per share – Basic	5	0.06 cents	(0.10) cents	(0.51) cents	(0.85) cents

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

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 quarterly financial report have been prepared in accordance with the applicable disclosure requirements of Chapter 18 to the GEM Listing Rules.

Reference is made to the announcement of the Company dated 30th September, 2003 whereby the Board informs, among others, that the Group has 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, the former Managing Director of the Company 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 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 27th November, 2003 whereby the 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. The Group is discussing with its legal advisor on the proper procedures that it needs to take in order to gain access to those proper handover of the books and records of Taiwan Subsidiary. At present, there is no practical way to ascertain the completeness and accuracy of financial position of the Group.

Saved as disclosed above and in the relevant announcements of the Company, the Directors are of the opinion that the results reflected in this quarterly report are subject to high uncertainty.

2. ACCOUNTING POLICIES

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

3. TURNOVER

	Three months ended		Nine months ended	
	30.9.2003	30.9.2002	30.9.2003	30.9.2002
	US\$'000	US\$'000	US\$'000	US\$'000
Turnover				
– communication services	914	2,387	5,365	7,423
– Internet access and related services	1,519	2,876	4,874	7,298
– virtual private network (“VPN”) and solution services	1,582	1,653	5,512	3,736
	4,015	6,916	15,751	18,457

4. TAXATION

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

5. PROFIT/ (LOSS) PER SHARE

The calculation of the basic profit/(loss) per share is based on the following data:

	Three months ended		Nine months ended	
	30.9.2003	30.9.2002	30.9.2003	30.9.2002
Net profit/(loss) for the period	US\$343,000	US\$(510,000)	US\$(2,924,000)	US\$(4,547,000)
Weighted average number of ordinary shares for the purpose of basic profit/(loss) per shares	575,382,456	536,373,641	575,382,456	535,621,614

No diluted profit/(loss) per share has been presented as the effect of any potential shares outstanding for both the period ended 2002 and 2003 would be anti-dilutive.

6. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>US\$'000</i>	Share premium <i>US\$'000</i>	Translation reserve <i>US\$'000</i>	Deficit <i>US\$'000</i>	Total <i>US\$'000</i>
At 1 January 2002	605	48,304	(277)	(46,560)	2,072
Issue of shares	83	6,445	-	-	6,528
Expenses incurred in connection with the issue of shares	-	(2,322)	-	-	(2,322)
Exchange differences arising on translation of financial statements of overseas operations	-	-	(347)	-	(347)
Net loss for the period	-	-	-	(4,547)	(4,547)
At 30 September 2002	688	52,427	(624)	(51,107)	1,384
At 1 January 2003	738	53,367	(496)	(55,191)	(1,582)
Exchange differences arising on translation of financial statements of overseas operations	-	-	250	-	250
Net loss for the period	-	-	-	(2,924)	(2,924)
At 30 September 2003	738	53,367	(246)	(58,115)	(4,256)

INTERIM DIVIDEND

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

FINANCIAL REVIEW

Comparing overall financial performance for the nine months ended 30 September 2003 to the same period last year, turnover of the Group amounted to US\$15,751,000, decreased by 14.7% from

US\$18,457,000. Gross profit decreased by 29.1% from US\$9,152,000 to US\$6,489,000. Net loss narrowed by 35.7% from US\$4,547,000 to US\$2,924,000. The significant improvement in profitability was mainly attributable to (1) significant effort over cost control in operating expenses and (2) the disposal of ISR business during the period.

1. Turnover

For the three months ended 30 September 2003, the Group's unaudited consolidated turnover amounted to US\$4,015,000, which represented an decrease of 32.7% over the previous quarter of US\$5,966,000 and an decrease of 41.9% over the corresponding period of US\$6,916,000 in 2002.

Revenue from communication services experienced a decrease of 54.8% to US\$914,000 from the previous quarter of US\$2,021,000 and a decrease of 61.7% comparing to US\$2,387,000 during the corresponding period in 2002. The decline in revenue was mainly due to disposal of ISR business during the period. Revenue from Internet access and related services dropped by 21.0% to US\$1,519,000 from US\$1,923,000 of the previous quarter, but dropped by 47.2% comparing to US\$2,876,000 during the same period in 2002. The decrease was driven by the fall in price resulting from fierce competition among competitors. For VPN and solution services, the revenue decreased by 21.8% to US\$1,582,000 from US\$2,022,000 compared to the previous quarter and decreased by 4.3% from US\$1,653,000 during the corresponding period in 2002. The reduction in VPN revenue is caused by the drop in the number of customers due to keen competition from other competitors.

2. Network operation and telecommunication costs

For the three months ended 30 September 2003, total network operation and telecommunication costs amounted to US\$2,166,000, which represented an decrease of 40.1% over the previous quarter of US\$3,617,000 and an decrease of 29.0% over the corresponding period of US\$3,051,000 in 2002. Cost decrease was in line with decrease in turnover when compared with the previous quarter. Cost reduction was mainly attributable to the significant decrease in termination cost for the disposal of voice business.

3. Staff costs

For the three months and nine months ended 30 September 2003, total staff costs amounted to US\$784,000 and US\$3,680,000 respectively. The Group has made a great effort on cost saving and total staff number of the Group reduced from approximately 250 as at 31 December 2002 to approximately 90 as at 30 September 2003. As such, total staff costs for the three months ended and nine months ended 30 September 2003 reduced by US\$741,000 or 48.6% and US\$1,493,000 or 28.9% respectively compared to the corresponding periods in 2002.

4. Occupancy expenses

For the three months and nine months ended 30 September 2003, total occupancy expenses amounted to US\$229,000 and US\$822,000, respectively, representing a decrease by 64.9% and 59.6% compared to each of the respective periods in 2002. Save as disclosed in the Company's 2003 interim report, the reduction in occupancy expenses was mainly due to the scale down of the Group's business operations in the USA and Japan and closure of certain Taiwan offices during the period.

BUSINESS REVIEW AND PROSPECTS

Set out below is the update on the operating and financial position of the Group as set out in the Announcement dated 27th November, 2003 ("the Announcement"):

(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 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 date of the Announcement.

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

The financial controller (the "Taiwan Financial Controller") and the whole accounting team under her supervision has 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 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.

(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 \$110,000 (or approximately HK\$499,400) and the variable fee for the same year will be not less than \$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 informs, among others, that the Group has 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 Group 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 situations.

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.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 September 2003, the interests of the Directors in the ordinary shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities Futures Ordinance ("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 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

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 Hwei Lin, the spouse of Mr. Chang Hsiao Hui, an executive director of the Company.

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

SHARE OPTION SCHEMES

As at 30 September 2003, the Company had two share option schemes, namely the Pre-IPO Share Option Scheme and the Share Option Scheme (both terms as defined in the prospectus of the Company dated 28 December 2001 (the "Prospectus")).

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

(1) Pre-IPO Share Option Scheme

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

Name of Directors	Date of grant	Vesting period of share options	Exercise period of share options	Exercise price per share	Balance as at 1 January 2003	Granted during the period	Exercised during the period	Lapsed during the period	Balance as 30 September 2003
Directors:									
Mr. Chang Hsiao Hui	27 December 2001	8 July 2002 to 1 January 2004	8 July 2002 to 20 December 2011	0.70 (Note 1)	1,609,000	-	-	-	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	-	-	627,000	7,475,000
Total					10,855,000	-	-	627,000	10,228,000

Note:

- Options to subscribe for 1,136,000 shares are granted to Mr. Chang Hsiao Hui personally and options to subscribe for 473,000 shares are granted to his spouse, Ms. Lin Huei Lin. Mr. Chang is deemed to be interested in his spouse's share options under the SFO.

(2) Share Option Scheme

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

Name of Directors	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 30 September 2003
Directors:									
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. 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	-	-	495,000	15,170,000
Total					18,745,000	-	-	495,000	18,250,000

Note:

- Options to subscribe for 1,500,000 shares are granted to Mr. Chang Hsiao Hui personally, and options to subscribe for 80,000 shares are granted to his spouse, Ms. Lin Huei Lin. Mr. Chang is deemed to be interested in his spouse's share options under the SFO.

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 September 2003, in addition to those interests as disclosed under the paragraph headed “Directors’ interests in share capital”, pursuant to Part XV of the SFO, the Company had been notified of the following interests, being 5% or more in the issued share capital of the Company:

Name	Number of shares	Approximate percentage of shareholding
KA Land Pte Ltd. (<i>Note 1</i>)	143,802,864	26.81%

Notes:

- KA Land Pte Ltd. (“KA Land”) is a wholly-owned subsidiary of Singapore Telecommunications Limited. At 30 September, 2003, KA Land also held convertible notes of an aggregate principal amount of HK\$7,800,000 issued by the Company. Upon full conversion of these convertible notes, the number of shares held by KA Land will be increased to 182,802,864 shares.

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

SPONSOR’S INTERESTS

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 the 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 interest 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 30th September, 2003.

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

COMPETING INTERESTS

As at 30 September, 2003, 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.

LITIGATION

China Unicom International Ltd. ("China Unicom")

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 informs 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



fixing 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. (“Wing Siu”)

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 and 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.

AUDIT COMMITTEE

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.

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 recruiting suitable personnel to fill the vacancy of independent non-executive directors and audit committee members. In the mean time, the Company has obtained wavier of two months to 6th January, 2004 for the non-compliance of Rule 5.05 and 5.23 of the GEM Listing Rule. The Company will continue its search for replacement of independent non-executive directors and audit committee members and will ensure compliance with the GEM Listing Rules in this regard as soon as practicable. Further announcement will be made by the Company as and when required under the GEM Listing Rules.

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 nine months ended 30 September 2003.

By order of the Board
Infoserve Technology Corp.
Yu Shu Kuen
Chairman

Hong Kong, 18 December, 2003