INFOSERVE TECHNOLOGY CORP.

英普達資訊科技公司*

(Incorporated in the Cayman Islands with limited liability)

RESULTS ANNOUNCEMENT FOR THE FINANCIAL YEAR ENDED 31ST DECEMBER 2003

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This announcement, for which the directors (the "Directors") of Infoserve Technology Corp. (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and believes: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* *For identification purpose only*

FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of Infoserve Technology Corp. (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31st December 2003 together with the comparative audited figures for the corresponding period 2002 are as follow:

	Notes	**2003**	2002
		US$'000	*US$'000*
Turnover		**16,975**	24,310
Other operating income		**567**	125
Network operation and telecommunication costs		**(9,816)**	(12,672)
Staff costs		**(4,058)**	(6,833)
Depreciation and amortisation of property, plant and equipment		**(1,599)**	(2,414)
Operating lease rentals in respect of machinery and equipment		**(1,548)**	(3,577)
Occupancy expenses		**(857)**	(2,709)
Prepaid network capacity written off		**(2,207)**	(1,531)
Provision for early termination of tenancies		**(68)**	(366)
Other operating expenses		**(10,526)**	(2,282)
Loss from operations		**(13,137)**	(7,949)
Finance costs		**(661)**	(681)
Gain on disposal of certain business		**769**	–
Gain on de-consolidation of former subsidiaries		**14,498**	–
Allowance for amounts due from former subsidiaries		**(2,928)**	–
Loss before taxation		**(1,459)**	(8,630)
Taxation	*3*	**–**	(1)
Net loss attributable to shareholders		**(1,459)**	(8,631)
Loss per share – Basic	*4*	**(0.25) cent**	(1.59) cents

Notes:

1. **BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

   The financial statements of the Company for the year ended 31st December 2003 have been prepared on the following bases.

   (a) In preparing the financial statements, the directors have given careful consideration to the future liquidity of the Group in light of the Group's net liabilities and net current liabilities of US$2,616,000 and US$2,643,000 respectively as at 31st December 2003.

Against this background, the directors have been taking active steps to improve the Group's liquidity position. On 18th March 2004, the Company entered into a subscription agreement with an independent subscriber conditional upon obtaining the necessary shareholders and regulatory approvals. The net proceeds from the subscription are estimated to be HK$20,000,000 which the directors intend to apply to repay indebtedness and to provide general working capital to the Group. In addition, the directors are currently in the final stages of negotiations with a vendor to extend settlement terms and are in discussion with lenders to roll-over all short-term loans and also with prospective lenders for the obtaining of additional credit facilities.

Provided that the subscription agreement is successfully completed and provided also that the negotiations and discussions can be successfully completed with the vendor, the lenders and prospective lenders as described above, the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial statements are prepared on going concern basis.

(b) In November 2003, having lost contact with the management and officers of Infoserve Technology Corporation, Infoserve Technology Hong Kong Limited which was put under liquidation, Infoserve Technology Beijing Limited and Infoserve Telecom Corp., the directors concluded that the Group had lost effective control over these former subsidiaries. The directors considered that the financial interests of the Group were best served not by expending significant time and resources to regain control of these subsidiaries, but instead by actively seeking means to divest these investments. Certain of these subsidiaries were finally disposed of in March 2004. The directors do not have any available information about the results of these subsidiaries for the period from 1st October 2003 to the date when, in the opinion of the directors, the Group lost effective control. On this basis, the consolidated income statement of the Group for the year ended 31st December 2003 includes a loss of US$12,146,000 in respect of these subsidiaries for the period from 1st January 2003 to 1st October 2003 based on unaudited management accounts together with a gain on de-consolidation of these subsidiaries of US$14,498,000.

2. Business and geographical segments

Business segments

For management purposes, the Group's operations are organised into three operating divisions, namely communication services, Internet access services, and virtual private network ("VPN") and solution services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Communication services	–	provision of voice, facsimile and other basic communication services
Internet access services	–	provision of Internet access, data centre and data centre-related services
VPN and solution services	–	provision of VPN and solution services

Business segments for the year are as follows:

	2003		2002	
	Turnover	**Results**	Turnover	Results
	US$'000	***US$'000***	*US$'000*	*US$'000*
Communication services	**5,760**	**(1,591)**	9,452	390
Internet access services	**5,578**	**(2,915)**	8,919	3,462
VPN and solution services	**5,637**	**(76)**	5,939	1,753
	16,975	**(4,582)**	24,310	5,605
Other operating income		**567**		125
Unallocated operating expenses		**(9,122)**		(13,679)
Loss from operations		**(13,137)**		(7,949)
Finance costs		**(661)**		(681)
Gain on disposal of certain businesses		**769**		–
Gain on de-consolidation of former subsidiaries		**14,498**		–
Allowance for amounts due from former subsidiaries		**(2,928)**		–
Loss before taxation		**(1,459)**		(8,630)
Taxation		**–**		(1)
Net loss attributable to shareholders		**(1,459)**		(8,631)

Geographical segments

The Group's operations are located in Taiwan, Singapore and other areas. The following table provides an analysis of the Group's geographical operation segment based on location of customers:

	Turnover	
	2003	2002
	US$'000	*US$'000*
Taiwan	**14,531**	22,475
Singapore	**1,826**	319
United States of America	**–**	653
Others	**618**	863
	16,975	24,310

3. Taxation

No provision for taxation has been made in the financial statements as the Group had no assessable profit for the year. The charge in 2002 represented underprovision of Taiwan corporate income tax in prior years.

4. Loss per share

The calculation of the basic loss per share is based on the net loss attributable to shareholders of US$1,459,000 (2002: US$8,631,000) and 575,382,456 (2002: weighted average number of 543,079,141) shares in issue during the year.

The computation of diluted loss per share does not assume the conversion of the convertible notes since their exercise would result in a decrease in loss per share from continuing ordinary operations.

The effect of share options is excluded from the calculation of diluted loss per share because the exercise price of the Company's share options is higher than the average market price of ordinary shares.

The computation of diluted loss per share did not assume the conversion of the Company's outstanding warrants since their exercise would result in a decrease in loss per share from continuing ordinary operations.

5. Consolidated statement of changes in equity

	Share capital	**Share premium**	**Translation reserve**	**Deficit**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 1st January 2002	605	48,304	(277)	(46,560)	2,072
Issue of shares	133	7,395	–	–	7,528
Expenses incurred in connection with the issue of shares	–	(2,332)	–	–	(2,332)
Exchange differences arising from translation of financial statements of overseas operations not recognised in the income statement	–	–	(219)	–	(219)
Net loss attributable to shareholders	–	–	–	(8,631)	(8,631)
At 31st December 2002	738	53,367	(496)	(55,191)	(1,582)
Exchange differences arising from translation of financial statements of overseas operations not recognised in the income statement	–	–	206	–	206
Realised on de-consolidation of former subsidiaries	–	–	219	–	219
Net loss attributable to shareholders	–	–	–	(1,459)	(1,459)
At 31st December 2003	738	53,367	(71)	(56,650)	(2,616)

6. Dividend

The Directors do not recommend the payment of a dividend (2002: Nil).

EXTRACT FROM AUDITORS' REPORT

Fundamental uncertainty relating to the going concern basis

The directors have been taking active steps to improve the Group's liquidity position. On 18th March 2004, the Company entered into a subscription agreement with an independent subscriber conditional upon obtaining the necessary shareholders and regulatory approvals. The net proceeds from the subscription are estimated to be HK$20,000,000 which the directors intend to apply to repay indebtedness and to provide general working capital to the Group. In addition, the directors are currently in the final stages of negotiations with a vendor to extend settlement terms, and are in discussion with lenders to roll-over all short-term loans and also with prospective lenders for the obtaining of additional credit facilities.

Provided that the subscription agreement is successfully completed and provided also that the negotiations and discussions can be successfully completed with the vendor, the lenders and prospective lenders as described above, the directors consider that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from a failure to obtain such funding. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements. However, in view of the extent of the uncertainty described above, we are unable to form an opinion as to the going concern status of the Group.

Adverse opinion

In November 2003, having lost contact with the management and officers of Infoserve Technology Corporation, Infoserve Technology Hong Kong Limited which was put under liquidation, Infoserve Technology Beijing Limited and Infoserve Telecom Corp., the directors concluded that the Group had lost effective control over these subsidiaries. The directors considered that the financial interests of the Group were best served not by expending significant time and resources to regain control of these subsidiaries, but instead by actively seeking means to divest these investments. Certain of these subsidiaries were finally disposed of in March 2004. The directors do not have any available information about the results of these subsidiaries for the period from 1st October 2003 to the date when, in the opinion of the directors, the Group lost effective control. On this basis, the consolidated income statement of the Group for the year ended 31st December 2003 includes a loss of US$12,146,000 in respect of these subsidiaries for the period from 1st January 2003 to 1st October 2003 based on unaudited management accounts together with a gain on de-consolidation of these subsidiaries of US$14,498,000.

However, the circumstances described above do not meet the requirements of International Accounting Standard No. 27 "Consolidated financial statements and accounting for investments in subsidiaries" so far as the de-consolidation of those subsidiaries is concerned. This is because, in our opinion, the Group retained the ability, by virtue of its shareholding in the subsidiaries, to exercise effective control up to the date of disposal of these subsidiaries. Accordingly, in our opinion, the results, cash flows and changes in equity of these subsidiaries should have been consolidated throughout the year ended 31st December 2003, their assets and liabilities recognised in the consolidated balance sheet as at 31st December 2003 and no gain recognised in respect of the de-consolidation. In the absence, however, of the financial statements of these subsidiaries for the year ended 31st December 2003, it is not practicable for us to determine the effect on the financial statements of the failure to properly account for these subsidiaries.

In view of the effect of the Group having accounted for the above subsidiaries in the manner described, in our opinion the financial statements do not give a true and fair view of the state of affairs of the Company and the Group as at 31st December 2003 and of the loss and cash flows of the Group for the year then ended and have not been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE PROFILE

The Group is principally engaged in the provision of a broad range of telecommunications solutions and services.

The Group's service offering included the following:

– communication services, including facsimile, voice and other basic communication services;

– internet access and related services, including various types of dial-up and leased line internet access services based on the customers' internet connectivity needs, data center and data center-related services; and

– VPN and other solution services, including CPE-based and MPLS network based IP VPN services, managed services, and application and system integration services.

As at 31st December 2003, the Group had a total of 8 employees. As at 31st December 2002, the Group had a total of 255 employees.

OPERATIONAL REVIEW

Singapore operations

The Singapore subsidiary, Infoserve Technology Pte Ltd. ("IS-Singapore"), was generating losses in 2002. In the beginning of 2003, the Group adopted a revenue sharing management model in respect of the Singapore operations in order to streamline the Group's operations and to reduce overheads. In addition, the outsourcing in Singapore was intended to enable the management to concentrate its efforts on revitalizing the other operations of the Group, such as the Taiwan operations in particular.

Netplus, an established IT manager and a business partner of the Group in Singapore, was appointed as the manager in respect of the Singapore operations.

The success of the management model and the business collaboration with Netplus was evidenced by the improvements to the results of the Singapore operations. As at the end of 2003, the total revenues from the Singapore operations amounted to approximately US$1.83 million , being an increase of 472 per cent from the total revenues as at the end of 2002. The Singapore operations had 850 customers as at the end of 2003, compared to 200 at the end of 2002.

The financial difficulties of the Taiwan operations led to some disruption to the Singapore operations in the final quarter of 2003. The IP VPN service and the billing systems in respect of the Singapore operations were operated and provided by the Taiwan subsidiary. As a result of the problems with and subsequent cessation of operations in Taiwan, some of the Singapore customers experienced disruptions to their IP VPN connections and consequently terminated their contracts with IS-Singapore. In addition, Netplus had to process the bills manually due to the lack of an automated billing system, resulting in a backlog in and delays to collection of receivables. An alternative IP VPN provider has since been procured and Netplus have set up their own billing system. However, as the result of such disruptions, the Singapore operations posted a net loss of approximately US$49,000 for the year ended 31st December 2003, compared to a net profit of US$8,000 for the nine months ended 30th September 2003.

Japan operations

The Japan operations are not substantial, but it does generate a steady revenue. The Japan subsidiary, Infoserve Technology K.K. ("IS-Japan") provides systems integration and network management services to FLAP, a Japanese mobile communications operator. For the year ended 31st December 2003, total revenues from the Japan operations amounted to US$268,000.

Taiwan operations

(i) Disposal of ISR business

With a view to divesting non-core operations, the Group disposed of the ISR business (being the provision to corporate customers of local and international long-distance call services and voice connection with mobile phone users) in Taiwan on 30th September 2003, for a consideration of approximately US$870,000. The revenues generated from the ISR business accounted for approximately 17.9 per cent. of the Group's total revenues for the six months ended 30th June 2003. The net proceeds of approximately US$796,000 (after deducting the expenses and tax incidental to the disposal) was applied to repay outstanding network fees to network service providers.

(ii) Suspension of business operation

The Taiwan operations have been experiencing cashflow difficulties since the final quarter of 2002. The Company had sought further financing at the beginning of 2003 through a US$1 million convertible notes issue. However the weak economic conditions in 2003 led to worsening cashflow difficulties for the Taiwan operations, which were further aggravated by the Injunction Order (see (iii) below).

As a result of the cashflow difficulties, unpaid salaries accumulated during the year. By November 2003, all of the employees in Taiwan ceased to report for duty. The Taiwan operations have been suspended since November 2003, due to the staff departure and disconnection of services by network services providers.

In addition, two of the directors and the supervisor of IS-Taiwan tendered their resignations on in October, 2003. These resignations are not yet effective as they have not been filed with the relevant authorities. The Company has been seeking legal advice on possible remedial actions against officers or employees in default.

(iii) Issue of injunction order by the Taiwan court

IS-Taiwan has been in dispute with two former sales executives (the "**Former Employees**") in relation to certain amounts allegedly owed to them in respect of unpaid salaries. The aggregate amount of the claim by the Former Employees is approximately US$57,700 (the "**Alleged Claim**"). The Company is not aware of any other legal actions taken by the Former Employees against the Group.

The Former Employees obtained an injunction order (the "**Injunction Order**") from a Taiwan court pursuant to which several major customers of the Taiwan subsidiary were ordered to withhold payment of trade receivables in an aggregate amount equivalent to the amount of the Alleged Claim. In Taiwan, it is accepted practice for trade payables to be paid in advance by way of post-dated cheques. As the Group was unable to collect on trade receivables from customers the subject of the Injunction Order, several post-dated cheques previously issued by the Taiwan subsidiary were dishonoured. Consequently, banks in Taiwan refused to discount post-dated cheques received by IS-Taiwan from its other customers (who were not subject to the Injunction Order). This led to a cashflow crisis for IS-Taiwan.

The Company has been seeking legal advice on obtaining a release of the Injunction Order, and has been advised that such a release can be obtained by depositing with the Taiwan court cash in an amount equivalent to the amount of the Alleged Claim. It is estimated that the total trade receivables being withheld by customers subject to the Injunction Order amount to approximately US$435,900 as of 4th November 2003.

(iv) Resignation of the entire accounting team in Taiwan

The financial controller (the "**Taiwan Financial Controller**") and the entire accounting team under her supervision resigned with effect from 11th November 2003. The Company has experienced difficulties in gaining access to certain financial records and also certain post-dated cheques written to IS-Taiwan by its customers. The Company understands that such post-dated cheques are for an aggregate amount of approximately US$435,900. The Company has been trying to contact the Taiwan Financial Controller to seek a proper handover of the books and records of the Taiwan subsidiary and to take custody of the post-dated cheques.

(v) *De-consolidation*

As a result of the operational difficulties above, the Company ceased to exercise control over the financial and operational affairs of IS-Taiwan since 1st October 2003. IS-Taiwan has therefore been de-consolidated from the Group accounts since 1st October 2003.

PRC operations

IS-PRC served as a sales and representative office in the PRC for the rest of the Group. As a result of the financial difficulties of the Taiwan operations, the PRC operations have correspondingly ceased since November 2003.

As a result of the operational difficulties with IS-Taiwan described above, the Company ceased to exercise control over the financial and operational affairs of IS-PRC since 1st October 2003. IS-PRC has therefore been de-consolidated from the Group accounts since 1st October 2003.

US operations

IS-US has been dormant since the first quarter of 2003.

As a result of the operational difficulties with IS-Taiwan described above, the Company ceased to exercise control over the financial and operational affairs of IS-US since 1st October 2003. IS-US has therefore been de-consolidated from the Group accounts since 1st October 2003.

Hong Kong operations

The Hong Kong operations have been generating losses since 2001 and has been gradually winding down. As a result of non-payment of network fees, the network services providers in Hong Kong and China disconnected their services and the Hong Kong operations have been suspended since November 2003.

As a result of the operational difficulties with IS-Taiwan described above, the Company ceased to exercise control over the financial and operational affairs of Infoserve Technology Hong Kong ("IS-HK") since 1st October 2003. IS-HK has therefore been de-consolidated from the Group accounts since 1st October 2003.

On 10th November 2003, the former landlord of IS-HK filed a winding up petition against the Company on account of unpaid rentals. IS-HK is in liquidation, and provisional liquidators were appointed on 7th January 2004.

FINANCIAL REVIEW

Turnover

For the year ended 31st December 2003, total turnover amounted to approximately US$16.975 million, a decrease of approximately 30 per cent. as compared to approximately US$24.310 million for 2002.

Total turnover of the Group are detailed as follows:

	Year ended 31st December		
	2003	2002	**Change**
	US$'000	*US$'000*	*%*
Communication services	**5,760**	9,452	-39
Internet access and related services	**5,578**	8,919	-37
Virtual private network ("VPN") and solution services	**5,637**	5,939	-5
	16,975	24,310	-30

Revenues from communication services decreased by approximately 39 per cent. from 2002. This decline was partly due to the disposal of ISR business in Taiwan in September 2003. However, increased competition also led to falling prices and lower sales. Revenues from internet access and related services also decreased by 37 per cent. from 2002, as a result, the fall in prices and sales due to the increased competition in the sector. Revenues from VPN and other solution services decreased by 5%. It was due to the suspension of business operation in Taiwan as mentioned in the section entitled "Taiwan Operations" above.

Network Operation and Telecommunications Cost

For the year ended 31st December 2003, network operation and telecommunications costs amounted to approximately US$9.82 million, a decrease of approximately 22.5% compared to approximately US$12.672 million in 2002.

Network operation and telecommunications costs are detailed as follows:

	Year ended 31st December		
	2003	2002	**Change**
	US$'000	*US$'000*	*%*
Access	**4,966**	3,403	46
Bandwidth	**1,588**	2,848	-44
Termination	**3,257**	5,495	-40
Others	**5**	926	-100
	9,816	12,672	-22

Access costs increased by approximately 46 per cent. in 2003, mainly due to the increase in the number of customers. However, bandwidth costs decreased by approximately 44 per cent. from 2002. The growth in customer numbers has enabled the Group to benefit from aggregation of bandwidth, thereby reducing bandwidth costs. The Group also recorded a fall in termination costs of approximately 40 per cent. in 2003, mainly due to the decline in total traffic minutes resulting from the disposal of ISR business in September 2003. Other costs comprised mainly of hardware costs, which saw a significant decrease. This was mainly as a result of the shift in the Group's marketing strategy, towards leasing instead of selling equipment to customers, which allows the Group to amortise the costs over the life of the equipment.

Operating Expenses

Total operating expenses amounted to approximately US$20.86 million for 2003, an increase of approximately 6 per cent. compared to approximately US$19.712 million in 2002. Total staff costs for 2003 amounted to approximately US$4,058 million, a decrease of approximately 40.6 per cent. compared with approximately US$6.833 million in 2002. During 2003, the Group has implemented a stringent cost cutting policy and the headcount had been reduced significantly from 255 in 2002 to less than 100 prior the suspension of service in Taiwan. Occupancy expenses amounted to approximately US$857,000, representing a decrease of approximately 68 per cent. compared to 2002. The decrease is mainly due to the cessation of Taiwan operations in November 2003, but also as a result of the reduction in headcount and size of operations as part of the Group's economy drive.

The Group prepaid international bandwidth capacity on an indefeasible right of use basis. Following the cessation of Taiwan operations, the Group no longer requires the international bandwidth capacity for its service and will allow the contract to lapse. Therefore, the operating expenses for 2003 comprise an exceptional item of approximately US$2.207 million, representing bandwidth costs which have been written off.

Net loss attributable to Shareholders

Net loss attributable to shareholders for the year ended 31st December 2003 fell by approximately 83 per cent. to approximately US$1.459 million, from approximately US$8.631 million in 2002. This improvement was mainly due to the gains arising from the de-consolidation IS-Taiwan, IS-PRC, IS-US and IS-HK.

LIQUIDITY AND FINANCIAL RESOURCES

Financing

The Group generally finances its operations from internally generated cashflows, supplemented with credit facilities and finance leases and new equity financing where necessary.

As at 31st December 2003, the Group had credit facilities of approximately US$2 million, comprising short term credit facilities with interest rates ranging from 5 per cent to 24 per cent. per annum. US$1 million of this indebtedness is in respect of the convertible notes held by a substantial shareholder. As at 31st December 2002, the Group had banking facilities of approximately US$12.609 million (approximately US$2.873 million of which was undrawn), comprising bank drafts of approximately US$500,000, short term loan facilities of approximately US$5.871 million and long term facilities of approximately US$ 3.365 million. Interest rates ranged from 2.61 per cent. to 7.61 per cent. per annum. All of the bank facilities were entered into by IS-Taiwan. Due to the financial difficulties of the Group, it was not able to secure long term bank financing on as favourable terms as before. During the year, the Group repaid its banking facilities from internally generated cashflow and with short term credit facilities entered into by the Company. Therefore, the Group's credit facilities are now denominated in Hong Kong dollars.

The Board intends to repay most of its existing indebtedness out of the proceeds of the proposed subscription. In addition, the Board is in discussions with its creditors for a possible debt restructuring. Please refer to the section entitled "Restructuring Proposals" for further details.

Liquidity

As at 31st December 2003, the Group had cash deposits of approximately US$44,600 (2002: US$74,000), of which approximately US$600 (2002: US$4,000), US$500 (2002: US$20,000), US$40,000 (2002: US$15,000) and US$3,500 (2002: US$7,000) was denominated in United States dollars, Hong Kong dollars, Singapore dollars and Japanese yen respectively. In 2002, the Group also had deposit of US$9,000 and US$19,000 in New Taiwan dollars and Renminbi.

Financial Support from Mr Chang Hsiao Hui, Michael ("Mr Chang")

Following a review of the financial position of the Group for the six months ended 30th June 2003, it was concluded that the fiscal situation of the Group was very tight. Consequently, Mr Chang agreed to provide financial support to the Group to enable it to meet in full its financial obligations for the period up to 30th June 2004. However, the Company was notified by Mr Chang on 6th November 2003 that he was no longer able to continue to provide the financial support in view of the Group's financial position. The withdrawal of the financial support by Mr Chang had an adverse impact on the operating and financial position of the Group. However, the Company was able to continue operating as a going concern due to measures taken by the new management.

New Management

A new management was introduced in the final quarter of 2003, with a view to implementing a comprehensive restructuring of the Group. Mr Yu Shu Kuen ("Mr. Yu") was appointed as Chairman of the board on 26th November 2003.

The new management has been formulating proposals to alleviate the fiscal position of the Group, including cost cutting measures and further fund raising. In particular, the management has been in discussions with various potential investors with a view to seeking additional financing for the Group.

The Group had entered into credit facilities in October with SHK Finance Limited and Koffman Finance Limited for an aggregate principal amount of approximately US$1.026 million. These facilities were intended as short term credit lines to enable the Group to meet its fiscal requirements, prior to the implementation of the Restructuring Proposals.

Restructuring Proposals

On 18th March 2004, the Company had entered into a Subscription Agreement and the Disposals Agreement, as part of the restructuring of the Group. Please refer to the section entitled "Restructuring Proposals" below for further details. The Company considers that the fiscal condition of the Group will be significantly improved following the implementation of the Restructuring Proposals

GEARING RATIO

As the shareholders' equity was negative at both year ended 31st December 2002 and 2003, no gearing ratio is provided.

CAPITAL STRUCTURE

Details of the movements in the authorized and issue share capital of the Company during the year ended 31st December 2003 are set out in note 24 to the financial statements.

CHARGES ON GROUP ASSETS

The Group granted a floating charge over all of its assets in favour of SHK Finance Limited pursuant to a debenture dated 13th October 2003. The floating charge was granted as security for a loan in the principal amount of approximately US$646,000 from SHK Finance Limited.

Save as described above, there are no outstanding charges over the assets of the Group.

FOREIGN EXCHANGE EXPOSURE

As at 31st December 2003 and 31st December 2002, the Group had no outstanding hedging instruments or facilities.

Previously, it was the Group's policy in respect of each operating subsidiary to borrow in local currencies, where possible, to minimize currency risks. However, as a result of the financial difficulties experienced by the Group, it became increasingly difficult for each of the subsidiaries to borrow at a competitive rate from local banks. During the year, the existing bank facilities were refinanced with credit facilities entered into by the Company, denominated in Hong Kong dollars. Nonetheless, as at 31st December 2003, the only operating subsidiaries in the Group were IS-Singapore and IS-Japan. Both these companies do not have any credit facilities and generally finance their operations from internally generated funds. Therefore, the Company does not consider that it currently requires any facilities to hedge against the Group's foreign exchange exposure.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December 2003, the Group had a total of 8 employees, compared to 255 as at 31st December 2002. Employees are remunerated according to their performance and working experience. Employee benefits include participation in pension schemes and medical insurance. Share options may be granted to employees based on their performance, in order to provide an incentive and reward to employees.

CONTINGENT LIABILITIES

The Group had no contingent liabilities for both year ended 31st December 2002 and 2003.

MATERIAL ACQUISITIONS AND DISPOSALS

The Group disposed of the ISR business (being the provision to corporate customers of local and international long-distance call services and voice connection with mobile phone users) in Taiwan on 30th September 2003, for a consideration of approximately US$870,000. The revenues generated from the ISR business accounted for approximately 17.9 per cent. of the Group's total revenues for the six months ended 30th June 2003. The net proceeds of approximately US$796,000 (after deducting the expenses and tax incidental to the disposal) was applied to repay outstanding network fees to network service providers.

Save as described above, no acquisitions or disposals of subsidiaries, affiliated companies or businesses was made during the year ended 31st December 2003.

Please refer to the section entitled "Restructuring Proposals" below for a description of the proposed disposals of IS-Taiwan, IS-PRC and IS-US.

FUTURE PLANS FOR MATERIAL INVESTMENT AND CAPITAL ASSETS

The Group will continue to focus on developing and providing a larger portfolio of more cost effective IP based and data related services for its customers in the Singapore and Japan markets in the coming year. Funding for such development is expected to be sourced from the additional working capital provided by the proposed subscription. Please refer to the section entitled "Restructuring Proposals" below for further details.

MATERIAL LITIGATION

IS-HK: action by Wing Siu Company Ltd ("Wing Siu")

IS-HK was served with a district court judgment dated 17th October 2003 by Wing Siu, the former landlord IS-HK in respect of the Group's previous principal place of business in Hong Kong. The claim was in respect of rents, rates and management fees alleged to have been due from IS-HK to Wing Siu for the period from June 2003 to 25th September 2003. The claim was for approximately US$41,400, together with interests and legal costs.

A settlement plan was offered to Wing Siu but rejected. On 10th November 2003, Wing Siu filed a petition for winding up against IS-HK. A winding up order was made against IS-HK on 7th January 2004, and provisional liquidators have been appointed.

IS-HK and the Company: action by China Unicom International Ltd. ("China Unicom")

The Company and IS-HK were served a high court writ dated 19th August 2003 by China Unicom. The claim is in respect of services charges alleged to be owing from IS-HK pursuant to four services agreements, entered into by IS-HK and China Unicom which obligations were guaranteed by the Company. The claim is in respect of approximately US$455,800, together with interest and legal costs. As stated in our announcement of 30th September 2003, the Company believes that it has grounds to defend this claim.

An order 14 judgment was obtained by China Unicom on 13th February 2004 for an amount of approximately US$414,600. The Company filed an appeal against this judgment on 23rd February 2004 and the appeal hearing is scheduled for 29th April 2004.

IS-Taiwan: employee disputes

IS-Taiwan has been in dispute with two Former Employees in relation to certain amounts allegedly owed to them in respect of unpaid salaries. The aggregate amount of the claim by the Former Employees is approximately US$57,700. The Company is not aware of any other legal actions taken by the Former Employees against the Group.

In addition, IS-Taiwan has received claims in respect of amounts alleged to be owing to three other former employees and two creditors. The aggregate amount of such claims is approximately US$144,900.

Save as described above, neither the Company nor its subsidiaries was involved in any material litigation or arbitration in 2003.

DIRECTORS' REMUNERATION

Details of the directors' remuneration for the financial year ended on 31st December 2003 are set out in note 7 to the financial statements.

MANAGEMENT CONTRACTS

In December 2002, IS-Singapore and the Company had entered into a management agreement with Netplus pursuant to which Netplus was appointed as manager in respect of the operations of the Group in Singapore. Netplus was remunerated with reference to the performance of the Singapore operations.

Save for the Management Agreement with Netplus, no contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existing during the year.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme are set out in note 34 to the financial statements.

RESTRUCTURING PROPOSALS

Subscription

The Company has entered into a subscription agreement with a potential investor to subscribe 2,000,000,000 new shares of the Company for cash, at a subscription price of HK$0.01 per share.

Further details of the subscription will be announced shortly.

Disposal of subsidiaries

The Company had entered into three separate disposal agreements with a purchaser for the disposal of the Group's entire interests in IS-Taiwan, IS-PRC and IS-US, for a nominal consideration in each case.

Further details of the disposals will be announced shortly.

Further proposals and developments

In addition to the abovementioned proposals, the Board is in discussions with its creditors in relation to proposals for a debt restructuring, with a view to further improving the gearing and the fiscal position of the Group.

RESUMPTION PROPOSAL

Trading in the Company's shares on GEM has been suspended since 4th November 2003 at the request of the Company as a result of the financial difficulties of the Group. In light of the expected improvements to the Group's financial condition following implementation of the Restructuring Proposals outlined above, a proposal for resumption of trading will be submitted to the Stock Exchange on shortly.

USE OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The actual use of proceeds from the new issue of shares by way of placing on 8th January 2002 for the year ended 31st December 2003 as compared to the planned amount set out in the Prospectus are listed below:

	For the period from 1st January 2003 to 31st December 2003	
	Planned amount	**Actual use**
	HK$'000	*HK$'000*
(a) To upgrade network facilities and backbone capacity	500	–
(b) To launch new sophisticated value added services using VPN and other solutions services	200	–
(c) To set up sales offices in Korea and Europe	500	–
(d) To review the effectiveness of its strategic development in various markets and modify and refine its strategy	100	–
	1,300	–

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

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business objectives as stated in the prospectus of the Company dated 28th December 2001 (the "Prospectus") for the period January – December 2003	Actual business progress for the period January – December 2003
Strategic development	
Aim to have formed strategic alliances with or established interconnections with domestic telecommunication networks in Korea, in addition to its existing network covering Taiwan, Hong Kong, the PRC, Japan and Singapore, and the USA.	As a result of the strong competition, low pricing and high costs of entry into the Korean market, the Group has not formed any strategic alliance with Korean operators, or established any business presence in that market. Instead, the Group focused on developing its IP-VPN business in the Greater China region where its existing operations were located.
Review the effectiveness of its strategic development in these markets and modify and refine its strategy accordingly.	The Group has not expanded into the PRC and US markets as originally intended, due to weak economic conditions. The Group's principal operations had been in Taiwan, but due to the operational and financial difficulties experienced by IS-Taiwan, those operations have ceased. Instead, the Group's Singapore operations have been steadily growing. Following the proposed disposal of IS-Taiwan, IS-PRC and IS-Us, the Group intends to refocus on strengthening and further growing the operations in Singapore and Japan, with the additional working capital from the proposed placing. The Group will continue to revise its strategy to develop and capture new profitable markets as the businesses opportunities arise.
Products and services development	
Work to improve the short message service system, depending on its initial acceptance, which should be launched prior to this period.	Due to the weak economic conditions and reduction in IT spending, no opportunity for a commercial launch of the short messaging system was identified. The system was originally intended to be launched in Taiwan. With the cessation of the Taiwan operations, this project will not be pursued further.

According to the business objectives as stated in the prospectus of the Company dated 28th December 2001 (the "Prospectus") for the period January – December 2003	Actual business progress for the period January – December 2003
Launch new sophisticated value-added services for its customers using VPN and other solution services, depending on the progress of development of new technology and application services that will be integrated into the Group's existing products and services, and the market reception of these products.	The economic slowdown has led to a reduction in IT spending, especially on non-vital value added solutions and services. Longer purchase decision-making and sale cycles brought on by the IT spending slowdown have created further sales barriers. In the current economic climate, the Company intends to focus on consolidating its Singapore and Japan operations and reinforcing its customer base. Nonetheless, the Company recognizes that the development of sophisticated value-added solutions is important to the long term growth of the Group. The Group continue to explore opportunities to develop value added solutions based on its existing VPN and related services offering in Singapore.
Network and facilities development	
Establish a point of presence in Korea and develop managed IP connections with VPN service providers in each of Korea, Canada, Europe and Australia	In light of prevailing economic conditions and the barriers to entry to new markets, the Group considers it more prudent to refocus on growing and consolidating its operations in Singapore and Japan, rather than expanding into new markets. The Group will continue to review its operational strategy as new business opportunities arise.
Consider to establish a point of presence in Europe depending on the success of the Group's marketing and sales in Europe.	The Group has not identified development opportunities in Europe at present. Europe is a developed market with a large number of established players offering highly competitive pricing and product offering. The Company believes there are significant barriers to entry to such market.

According to the business objectives as stated in the prospectus of the Company dated 28th December 2001 (the "Prospectus") for the period January – December 2003	Actual business progress for the period January – December 2003
Continue to upgrade network facilities and backbone capacity Continue to optimize the utilization of network facilities and backbone.	During 2003, new IPLC were established between Taipei, Hong Kong, Guangzhou and Shanghai. With the Group's revised focus on the Singapore and Japan operations, not all of these circuits will be required. Some of the circuits will be re-dimensioned to suit the new business needs of the Group. The Company, together with its Singapore manager, Netplus, will continue to seek improvements to the network facilities as necessary.
Sales and marketing strategy Set up a sales office in Korea. Set up a sales office in Europe. Expand the sales and marketing team to support the sales office in Europe, if necessary. Seek resellers to sell its products and services in Europe.	Due to prevailing weak economic conditions and barriers to entry to the Korean and European markets, the Group has not sought an expansion into these markets. The Group will continue to review business opportunities in existing and new markets as they arise.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The directors were unable to form an opinion as to whether the Company has complied throughout the year with board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

In the opinion of the current directors, the Company has compiled throughout the period after their appointment as directors board practices and procedures as set out in Rules 5.28 and 5.39 of the GEM Listing Rules.

During the year, the audit committee held two meetings and the primary duties of the meetings were to review and supervise the financial reporting process and internal control system of the Group.

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

Hong Kong, 26th March 2004

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