THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for information purposes only and does not constitute an invitation or offer to acquire or subscribe for securities.

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 document and the accompanying form of proxy 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.

INFOSERVE®

INFOSERVE TECHNOLOGY CORP.
英普達資訊科技有限公司*
(incorporated in the Cayman Islands with limited liability)
(Stock code: 8077)

TENWAY LIMITED
(incorporated in the British Virgin Islands with limited liability)

MAJOR TRANSACTIONS INCLUDING THE SUBSCRIPTION (INVOLVING THE WHITEWASH WAIVER) AND THE DISPOSALS OF BUSINESS INTERESTS

LOAN CAPITALISATION, SECOND SUBSCRIPTION, AND INCREASE IN AUTHORISED SHARE CAPITAL

Retained sponsor to the Company

Hantec Capital Limited

Financial adviser to the Company

Somerley Limited

Joint financial advisers to the Subscriber

KE Capital (Hong Kong) Limited
(formerly known as Kim Eng Capital (Hong Kong) Limited)
and
Kim Eng Corporate Finance (Hong Kong) Limited

Independent financial adviser to the independent board committee of Infoserve Technology Corp.

ALTUS CAPITAL LIMITED

A letter of advice from Altus Capital Limited, containing its opinion and advice to the independent board committee of Infoserve Technology Corp. is set out on pages 26 to 42 of this circular.

A notice convening an extraordinary general meeting of Infoserve Technology Corp. to be held at the Meeting Room at Island Pacific Hotel, 152, Connaught Road West, Hong Kong at 10:00 a.m. on 7th June, 2004 is set out on pages 103 to 106 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instructions printed thereon as soon as possible to the principal place of business of the Company at 11/F, Ying Kong Mansion 2-6 Yee Wo Street, Causeway Bay, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjourned meeting should you so wish.

This circular will remain on the GEM website at 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.

* *For identification purpose only*

21st May, 2004

CHARACTERISTICS OF GEM

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. GEM 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.

CONTENTS

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

"Altus Capital"	Altus Capital Limited, a deemed licensed corporation to carry out Types 1, 4, 6 and 9 (dealing in securities and advising on securities and corporate finance and asset management) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee in relation to the Whitewash Waiver
"Announcement"	the announcement of the Company dated 1st April, 2004 in relation to, among other things, the Subscription, the Disposals and the Whitewash Waiver
"associate"	has the same meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"Capitalisation Shares"	the new Shares to be allotted and issued to Success Harmony pursuant to the Loan Capitalisation Agreement which, on the basis of interest accrued up to and including 14th May, 2004, will amount to approximately 270,800,000 new Shares
"China Unicom"	China Unicom International Ltd
"Company"	Infoserve Technology Corp., a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
"Convertible Notes"	the convertible notes for an aggregate principal amount of HK$7,800,000 issued by the Company on 13th January, 2003 to KA Land entitling it to convert in whole or in part, into Shares at a conversion price of HK$0.20 per Share subject to adjustment. The convertible notes are exercisable by KA Land until their expiry on 12th April, 2004. However, as the notes have not been repaid, the conversion rights continue to be exercisable
"Directors"	the directors of the Company
"Detailed Management Accounts"	the pro forma unaudited consolidated financial statement of the group comprising the Company, Infoserve Japan and Infoserve Singapore for the year ended 31st December, 2003 which were prepared on the basis of the financial statements of the Company, Infoserve Japan and Infoserve Singapore for the year ended 31st December, 2003 (which have been audited as part of, and in the context of, the annual audit for the Group for the year ended 31st December, 2003)
"Disposals"	the disposals by the Company of the equity interest in each of Infoserve PRC, Infoserve Taiwan and Infoserve US
"Disposal Agreements"	collectively Taiwan Operations Disposal Agreement, PRC Operations Disposal Agreement and US Operations Disposal Agreement

"Dr. Li"	Dr. Li Fang Hong, the spouse of Mr. Gui who together are the controlling shareholders of the Subscriber
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of passing the resolutions approving, among other things, the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Disposals, the Whitewash Waiver and the increase in authorised capital
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Goodfit Properties"	Goodfit Properties Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Mr. Chow Wang
"Group"	the Company and all its subsidiaries including Infoserve Singapore, Infoserve Japan, Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK
"Hantec"	Hantec Capital Limited, a corporation licensed to carry out Types 1 and 6 (dealing in securities and corporate finance) regulated activities under the SFO and which has been appointed as the retained sponsor of the Company
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising Mr. Ip Man Tin, David and Mr. Leung Hong Tai, both of whom are independent non-executive Directors
"Independent Shareholders"	Shareholders other than Mr. J.L. Tsai, Mr. T.C. Tsai, Mr. Chang and their respective concert parties
"Infoserve HK"	Infoserve Technology Hong Kong Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
"Infoserve Japan"	Infoserve Technology K.K., a company incorporated in Japan with limited liability and a wholly-owned subsidiary of the Company
"Infoserve PRC"	北京英普達資訊科技有限公司, a company established in the PRC as a wholly foreign owned enterprise and a wholly-owned subsidiary of the Company
"Infoserve Singapore"	Infoserve Technology Pte Ltd., a company incorporated in Singapore with limited liability and a wholly-owned subsidiary of the Company

"Infoserve Taiwan"	英普達資訊科技股份有限公司 (Infoserve Technology Corporation), a company incorporated in Taiwan with limited liability, being an effectively wholly-owned subsidiary of the Company. In order to fulfill the legal requirement of Taiwan imposed at the time of the Group's corporate reorganisation implemented in July 2000 that there had to be at least seven shareholders in a company limited by shares, 60 shares of Infoserve Taiwan are held by six Taiwan citizens, namely, Mr. J.L. Tsai, Mr. Chang and their respective parents of 10 shares each. They, together, hold less than 0.001% of the issued share capital of Infoserve Taiwan. The balance of the outstanding shares are held by the Company. As such, the Directors consider that Infoserve Taiwan is effectively 100% owned by the Company
"Infoserve US"	Infoserve Telecom Corp., a company incorporated in New Jersey, US with limited liability and a wholly-owned subsidiary of the Company
"Internet"	a global network of interconnected, separately administered public and private computer networks
"KA Land"	KA Land Pte Ltd., a company incorporated in Singapore and wholly-owned by Singapore Telecommunications Limited, a company listed on the Stock Exchange of Singapore. KA Land Pte Ltd. is a substantial Shareholder holding approximately 24.99% of the existing issued Share Capital of the Company
"KE Capital"	KE Capital (Hong Kong) Limited (formerly known as Kim Eng Capital (Hong Kong) Limited), a corporation licensed to undertake type 6 (advising on corporate finance) regulated activities under the SFO and one of the joint financial advisers to the Subscriber
"Kim Eng Corporate Finance"	Kim Eng Corporate Finance (Hong Kong) Limited, a corporation licensed to undertake type 6 (advising on corporate finance) regulated activities under the SFO and one of the joint financial advisers to the Subscriber
"Loan"	the aggregate principal amount of HK$4 million owed by the Remaining Group to Success Harmony, part of which (being HK$2.6 million) together with the interest accrued on the aforesaid principal amount up to and including the date of completion of the Loan Capitalisation will be capitalised pursuant to the Loan Capitalisation Agreement
"Loan Capitalisation"	the subscription of the Capitalisation Shares by Success Harmony by way of capitalisation of part of the Loan and the interest accrued and to be accrued on the entire principal amount of the Loan up to and including the date of completion of the Loan Capitalisation Agreement pursuant to the terms and conditions of the Loan Capitalisation Agreement

"Loan Capitalisation Agreement"	the agreement dated 12th May, 2004 entered into between the Company, Success Harmony and Mr. Yu in relation to the Loan Capitalisation
"Latest Practicable Date"	19th May, 2004, being the latest practicable date prior to the bulk printing of this circular for ascertaining certain information contained herein
"Mr. Choi"	Mr. Choi Wai Him, an independent third party who is not a Shareholder nor a connected person (as defined under the GEM Listing Rules) of the Company, or of the Subscriber, or a party acting in concert with any of them
"Mr. Chang"	Mr. Chang Hsiao Hui, Michael, an executive Director
"Mr. Gui"	Mr. Gui Song, the spouse of Dr. Li who together are the controlling shareholders of the Subscriber
"Mr. J.L. Tsai"	Mr. Tsai Jenp Luh, a Shareholder interested in approximately 17.3% of the existing issued share capital of the Company
"Mr. T.C. Tsai"	Mr. Tsai Tun Chi, a non-executive Director
"Mr. Yu"	Mr. Yu Shu Kuen, the Chairman of the Company and an executive Director
"Management Accounts"	the pro forma unaudited consolidated financial statement of the group comprising the Company, Infoserve Japan and Infoserve Singapore for the year ended at 31st December, 2003
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme adopted by the Company on 10th September, 2001
"Pre-IPO Share Options"	the share options granted under the Pre-IPO Share Option Scheme in respect of 2,280,000 Shares, exercisable on or before 20th December, 2011 at an exercise price of HK$0.70 per Share
"Post-IPO Share Option Scheme"	the share option scheme adopted by the Company on 21st December, 2001
"Post-IPO Share Options"	the share options granted under the Post-IPO Share Option Scheme in respect of 3,000,000 Shares, exercisable on or before 31st December, 2005 at an exercise price of HK$1.212 per Share
"PRC"	People's Republic of China, and for the purpose of this circular, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
"PRC Operations Disposal Agreement"	the agreement dated 18th March, 2004 entered into between the Company and Mr. Choi pursuant to which the Company has agreed to dispose of its entire interest in Infoserve PRC to Mr. Choi

"Remaining Group"	the Group comprising the Company, Infoserve Japan and Infoserve Singapore but excluding Infoserve HK (in liquidation), Infoserve Taiwan, Infoserve PRC and Infoserve US
"Restructuring Proposal"	the proposal involving the Subscription, the Second Subscription, the Loan Capitalisation and the Disposals
"Second Subscription"	the subscription of the Second Subscription Shares by Goodfit Properties subject to the terms and conditions of the Second Subscription Agreement
"Second Subscription Agreement"	the subscription agreement dated 12th May, 2004 entered into between the Company and Goodfit Properties in relation to the Second Subscription
"Second Subscription Shares"	140,000,000 new Shares to be allotted and issued by the Company to Goodfit Properties pursuant to the Second Subscription Agreement
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Somerley"	Somerley Limited, a corporation licensed by the SFC to carry out Type 1, 4, 6, and 9 (dealing in securities, advising on securities and corporate finance and asset management) regulated activities under the SFO
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Tenway Limited, an investment holding company incorporated in the British Virgin Islands with limited liability
"Subscription"	the subscription of the Subscription Shares by the Subscriber subject to the terms and conditions of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 18th March, 2004 entered into between the Company and the Subscriber in relation to the Subscription
"Subscription Shares"	2,000,000,000 new Shares to be issued by the Company to the Subscriber pursuant to the Subscription Agreement

"Success Harmony"	Success Harmony Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Mr. Alexander Tai Kwok Leung
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Taiwan Operations Disposal Agreement"	the agreement dated 18th March, 2004 entered into between the Company and Mr. Choi pursuant to which the Company has agreed to dispose of its entire interest in the share capital of Infoserve Taiwan to Mr. Choi
"US Operations Disposal Agreement"	the agreement dated 18th March, 2004 entered into between the Company and Mr. Choi pursuant to which the Company has agreed to dispose of its entire interest in Infoserve US to Mr. Choi
"United States" or "US"	The United States of America
"VPN"	Virtual private network, a network that functions as if it was private through the use of encryption software or hardware although it exists on public wires
"Warrants"	the stock subscription warrant dated 18th September, 2000 and as amended by a deed of variation dated 18th December, 2001 and entitling Cisco System Capital Corporation to subscribe an aggregate of 4,721,040 Shares at a subscription price of HK$0.7887 per Share, subject to adjustment. The warrants are exercisable by Cisco System Capital Corporation until their expiry on 18th September, 2005
"Whitewash Waiver"	the waiver from the Executive pursuant to Note 1 to Notes on Dispensations from Rule 26 of the Takeovers Code
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"NT$"	New Taiwan dollars, the lawful currency of Taiwan
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of United States
"%"	per cent.

In this circular, the foreign currency amounts have been converted using the following exchange rates:

NT$4.283	=	HK$1.0
US$1.0	=	HK$7.8
RMB1.06	=	HK$1.0

INFOSERVE TECHNOLOGY CORP.
英普達資訊科技有限公司*

(Incorporated in the Cayman Islands with limited liability)

Directors:
Yu Shu Kuen *(Chairman and executive Director)*
Chang Hsiao Hui, Michael *(Executive Director)*
Tsai Tun Chi *(Non-executive Director)*
Ip Man Tin, David *(Independent non-executive Director)*
Leung Hong Tai *(Independent non-executive Director)*

Registered office:
2/F., Cayside, Harbour Drive
P.O. Box 30592
SMB
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Grand Cayman
Cayman Islands
British West Indies

Head office and principal place of business:
11/F, Ying Kong Mansion
2-6 Yee Wo Street
Causeway Bay
Hong Kong

21st May, 2004

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTIONS INCLUDING THE SUBSCRIPTION (INVOLVING THE WHITEWASH WAIVER) AND THE DISPOSALS OF BUSINESS INTERESTS

LOAN CAPITALISATION, SECOND SUBSCRIPTION, AND INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

On 1st April, 2004, the Board announced that the Company and the Subscriber have entered into the Subscription Agreement on 18th March, 2004 pursuant to which the Company agreed to allot and issue and the Subscriber agreed to subscribe in cash for a total of 2,000,000,000 Subscription Shares at a subscription price of HK$0.01 each. The net proceeds from the Subscription are estimated to be approximately HK$19 million and the Directors intend to apply approximately HK$15.5 million of the net proceeds to repay indebtedness and the remaining HK$3.5 million as general working capital of the Remaining Group.

* *For identification purpose only*

After entering into the Subscription Agreement, the Company approached its creditors to negotiate a debt restructuring in order to further improve the financial position of the Remaining Group. The Company has reached agreements with creditors to restructure its indebtedness, which include deferred payment term, waiver of part of the indebtedness and loan capitalisation. On 12th May, 2004, Success Harmony, the Company and Mr. Yu entered into the Loan Capitalisation Agreement whereby the Company agreed to allot and issue the Capitalisation Shares to Success Harmony, credited as fully paid up by way of capitalisation of HK$2.6 million of the principal amount of the Loan and the interests accrued and to be accrued on the entire principal amount of the Loan in the sum of HK$4 million up to and including the date of completion of the Loan Capitalisation Agreement and Success Harmony agreed to subscribe the Capitalisation Shares at a subscription price of HK$0.01 per Capitalisation Share. For reference purposes only, the amount of interest accrued on the principal amount of the Loan up to and including 14th May, 2004 was approximately HK$108,000. On this basis, a total of approximately 270,800,000 Capitalisation Shares will be alloted and issued under the Loan Capitalisation. The remaining HK$1.4 million of the principal amount of the Loan will be repaid in cash to be raised from the Second Subscription. On 12th May, 2004, the Company and Goodfit Properties entered into the Second Subscription Agreement pursuant to which the Company agreed to allot and issue and Goodfit Properties agreed to subscribe in cash for a total of 140,000,000 Second Subscription Shares at a subscription price of HK$0.01 per Second Subscription Share. The Company will apply the entire proceeds of HK$1.4 million to repay the indebtedness owed by the Remaining Group to Success Harmony.

The Group has been operating under serious cashflow and liquidity problems since September 2003. The Company has been looking for additional funding to alleviate the cashflow and liquidity problems of the Group. The Directors believe that the financial position of the Remaining Group would be strengthened with the cash injection from the Subscription and the Second Subscription and the cash that is conserved by settling part of the Loan by the issue of the Capitalisation Shares.

Upon completion of the Loan Capitalisation, the Subscription and the Second Subscription, the Subscriber and its concert parties will become the controlling Shareholder of the Company holding approximately 66.97% of the issued share capital of the Company as enlarged by the issue of the Capitalisation Shares, the Subscription Shares and the Second Subscription Shares. In the absence of the Whitewash Waiver, the Subscriber and parties acting in concert with it will be required under Rule 26 of the Takeovers Code to make a general offer for all the issued Shares not already owned or controlled by the Subscriber and parties acting in concert with it. The Subscriber has, however, made an application to the Executive pursuant to Note 1 to Notes on Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver, and the Executive has indicated that, subject to the approval by the Independent Shareholders (being Shareholders other than Mr. J.L. Tsai, Mr. T.C. Tsai, Mr. Chang and their respective concert parties) by way of a poll at the EGM, the Whitewash Waiver will be granted.

The grant of the Whitewash Waiver from the Executive is one of the conditions precedent to the Subscription Agreement. The Executive has indicated that, subject to the approval by the Independent Shareholders (being Shareholders other than Mr. J.L. Tsai, Mr. T.C. Tsai, Mr. Chang and their respective concert parties) by way of a poll at the EGM, the Whitewash Waiver will be granted. If the Whitewash Waiver is approved by the Independent Shareholders, the Subscriber will not be required to make a general offer to the Shareholders under Rule 26 of the Takeovers Code as a result of the issue of the Subscription Shares.

In addition, the Company and Mr. Choi have entered into three sets of separate agreements on 18th March, 2004, being the Taiwan Operations Disposal Agreement, the PRC Operations Disposal Agreement and the US Operations Disposal Agreement, pursuant to which the Company agreed to sell and Mr. Choi agreed to acquire from the Company its entire equity interest in each of Infoserve Taiwan, Infoserve PRC and Infoserve US at a consideration of HK$1.00, HK$1.00 and US$1.00 respectively. The principal effect of the disposals of the Group's operations in Taiwan, the PRC and US is to enable the Group to extinguish the significant outstanding liabilities of Infoserve Taiwan, Infoserve PRC and Infoserve US. For reference purposes only, the aggregate outstanding liabilities of Infoserve Taiwan, Infoserve PRC and Infoserve US with third parties as at 1st October, 2003 was approximately US$21.3m (equivalent to approximately HK$166.1m).

Somerley has been appointed as the financial adviser to the Company and KE Capital and Kim Eng Corporate Finance have been appointed as the joint financial advisers to the Subscriber, in connection with, among other things, the Subscription and the Whitewash Waiver. Altus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee in respect of the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Whitewash Waiver and the Disposal Agreements.

The purpose of this circular is to provide you with further information on, among other things, the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Whitewash Waiver, the Disposal Agreements and the increase in authorised share capital, to set out the advice of Altus Capital to the Independent Board Committee and the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Whitewash Waiver and the Disposal Agreements and to give you notice of the EGM proposed to be held on 7th June, 2004 at which resolutions will be proposed to seek your approval of, among other things, the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Whitewash Waiver, the Disposal Agreements and the increase in authorised share capital.

THE SUBSCRIPTION

The Subscription Agreement

Issuer: The Company

Subscriber: Tenway Limited, the Subscriber, is owned as to 30.62% by Worldtime Limited ("Worldtime"), 65.00% by Hopewell Global Limited ("Hopewell") and 4.38% by Concord Pacific Global Limited ("Concord Pacific"). Worldtime is owned as to 99.00% by Dr. Li and 1.00% by Mr. Chang Jiaxing. Hopewell is owned as to 75.00% by Mr. Gui and as to 25.00% by Dr. Li. Concord Pacific is owned as to 80.00% by Mr. Tang Xueyi and 20.00% by Ms. Cheung Kwan. The Subscriber and its ultimate beneficial owners are not connected persons (as defined under the GEM Listing Rules) of the Company or parties acting in concert with any connected persons of the Company. The Subscriber and its concert parties did not hold any Shares as at the Latest Practicable Date.

On 18th March, 2004, the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Company agreed to allot and issue and the Subscriber agreed to subscribe in cash for a total of 2,000,000,000 Subscription Shares at a subscription price of HK$0.01 each. The Company will make an application to the Stock Exchange for the listing of, and permission to deal in the Subscription Shares.

The 2,000,000,000 Subscription Shares represents approximately 347.59% of the existing issued share capital of the Company and approximately 66.97% of the issued share capital of the Company as enlarged by the issue of the Capitalisation Shares, the Subscription Shares and the Second Subscription Shares.

The subscription price

The subscription price of HK$0.01 per Subscription Share was determined after arm's length negotiations between the Company and the Subscriber, after considering various commercial factors including the audited net deficit position of the Group of US$1.6 million (equivalent to approximately HK$12.5 million) as at 31st December, 2002, the losses incurred by the Company in the year of 2003 (details of which were disclosed in the paragraph headed "Information on the Group" below) which further deteriorated the Group's net deficit position, the operating and financial position of the Group and the effects of the Disposals. Details of the effects of the Disposals are set out in the paragraph headed "Reasons for and effects of the Disposals" below. The Board is of the view that the terms of the Subscription Agreement are fair and reasonable and in the interest of the Shareholders as a whole.

The subscription price for each Subscription Share represents a discount of 60% to the closing price of HK$0.025 per Share as quoted on the Stock Exchange on 3rd November, 2003, being the last full trading day (the "Last Full Trading Day") prior to the suspension of trading of the Shares as from 2:30 p.m. on 4th November, 2003 and a discount of approximately 56.5% to the average closing price of HK$0.023 per Share as quoted on the Stock Exchange over the last ten full trading days up to and including the Last Full Trading Day.

Ranking of the Subscription Shares

The Subscription Shares, when allotted and issued, will rank pari passu in all respects among themselves and with the then issued Shares, the Capitalisation Shares and the Second Subscription Shares, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Subscription Shares.

Conditions of the Subscription Agreement

Completion of the Subscription Agreement is conditional upon the following conditions having been fulfilled:

(i) the Subscriber being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Remaining Group as it may consider appropriate on or before the date falling 14 days after the date of publication of this announcement;

(ii) the Listing Committee of GEM granting listing of and permission to deal in the Subscription Shares;

(iii) the Independent Shareholders approving the transactions contemplated under the Subscription Agreement in the EGM including, but not limited to, the Whitewash Waiver in accordance with the Takeovers Code (such vote to be conducted by way of poll) and the allotment and issue of the Subscription Shares;

(iv) the granting of a whitewash waiver by the Executive of the obligation of the Subscriber and parties acting in concert with it to extend a general offer to purchase the issued Shares (other than the Subscription Shares and Shares which are owned by the Subscriber and parties acting in concert with it) in accordance with the Takeovers Code;

(v) consent in principle of the Stock Exchange to the lifting of the suspension, and the resumption, of the trading in the Shares on GEM, or if no such consent is granted by the Stock Exchange, the actual uplifting of the suspension, and the resumption, of the trading in the Shares on GEM;

(vi) listing in the Shares on GEM not being revoked or withdrawn at any time immediately before the satisfaction of the last of the conditions precedent (other than the conditions set out in paragraphs (vi), (vii) and (xi));

(vii) no indication being received from GEM or the SFC that the listing of the Shares on GEM will or may be revoked or withdrawn at any time after the Completion, whether in connection with any of the transactions contemplated by the Subscription Agreement or otherwise immediately before the satisfaction of the last of the conditions precedent (other than the conditions set out in paragraphs (vi), (vii) and (xi));

(viii) the Shareholders approving the increase in the authorised share capital of the Company from HK$8,000,000 to HK$50,000,000 by the creation of 4,200,000,000 Shares at the EGM;

(ix) the completion of the PRC Operations Disposal Agreement, US Operations Disposal Agreement and the Taiwan Operations Disposal Agreement in accordance with their respective terms;

(x) the withdrawal/discontinuance of the outstanding litigations pending or threatened against the Remaining Group, except the action brought by China Unicom International Limited against the Company;

(xi) the representations, warranties and undertakings made by the Company remaining true, accurate and complete in all material respects immediately before the satisfaction of the last of the conditions precedent (other than the conditions set out in paragraphs (vi), (vii) and (xi));

(xii) there being no deviation between the Management Accounts (which have been prepared on the basis of the unaudited financial statements of the Company, Infoserve Singapore and Infoserve Japan) and the Detailed Management Accounts (which have been prepared on the basis of the financial statements of the Company, Infoserve Singapore and Infoserve Japan which have been audited as part of, and in the context of, the annual audit for the Group for the year ended 31st December, 2003) which, in the reasonable opinion of the Subscriber, is material and adverse in the context of the Remaining Group; and

(xiii) all necessary consents and approvals required to be obtained on the part of the Company in respect of the Subscription and the transactions contemplated under the Subscription Agreement having been obtained.

As at the Latest Practicable Date, conditions (i) and (xii) have been fulfilled. In the event that any of the other conditions is not fulfilled or waived in full by 5:00 p.m. on 30th September, 2004 (or such other time and date as may be agreed between the Company and the Subscriber in writing), the Subscription Agreement shall cease and determine and the parties shall be released from all obligations and liabilities under it, save for any antecedent breaches of the provisions under the Subscription Agreement. Conditions (iii) and (iv) above cannot be waived by the Subscriber unless the Subscriber has demonstrated to the satisfaction of KE Capital and Kim Eng Corporate Finance that it has sufficient financial resources to fulfill its obligations under Rule 26 of the Takeovers Code.

Completion

Completion of the Subscription Agreement shall take place on the second business day following the date on which the above conditions are fulfilled or waived, as the case may be. Upon completion of the Subscription Agreement, the Subscriber will pay to the Company the aggregate consideration for the Subscription Shares of HK$20 million.

Reasons for the Subscription

Since September 2003, the Group has been operating under serious cashflow and liquidity problems. The Company has been looking for additional funding to alleviate the cashflow and liquidity problems of the Group. In particular, the Company had conducted negotiations with potential investors with a view to regenerating the business operation of the Group with new cash injected into the Company by way of a subscription of new Shares. On 18th March, 2004, the Company and the Subscriber entered into the Subscription Agreement pursuant to which the Subscriber agreed to subscribe an aggregate of 2,000,000,000 Subscription Shares at subscription price of HK$0.01 each. The Directors believe that the financial position of the Remaining Group would be strengthened with the cash injection of HK$20 million from the Subscription.

Use of proceeds

The net proceeds from the Subscription are estimated to be approximately HK$19 million and the Directors intend to apply approximately HK$15.5 million to repay indebtedness and the remaining balance as general working capital.

GEM Listing Rules Requirements

Under the GEM Listing Rules, the Subscription constitutes a major transaction for the Company and accordingly the Subscription is subject to approval of Shareholders at the EGM, at which the Subscriber and its associates will be required to abstain from voting. As at the Latest Practicable Date, the Subscriber and its associates did not hold any Shares and on the assumption that they will not hold any Shares at the time of the EGM, no Shareholder will be required under the Listing Rules to abstain from voting on the resolution to be proposed at the EGM to approve the Subscription.

THE SECOND SUBSCRIPTION

The Second Subscription Agreement

Issuer: The Company

Subscriber: Goodfit Properties. Goodfit Properties and its beneficial owner are not connected persons (as defined under the GEM Listing Rules) of the Company or parties acting in concert with the Subscriber or any connected persons of the Company. Goodfit Properties and its beneficial owner did not hold any Shares as at the Latest Practicable Date.

On 12th May, 2004, the Company and Goodfit Properties entered into the Second Subscription Agreement pursuant to which the Company agreed to allot and issue and Goodfit Properties agreed to subscribe in cash for a total of 140,000,000 Second Subscription Shares at a subscription price of HK$0.01 per Second Subscription Share. The Company will apply the entire proceeds of HK$1.4 million to repay the indebtedness owed by the Remaining Group to Success Harmony.

The Second Subscription Shares

The 140,000,000 Second Subscription Shares represent approximately 24.33% of the existing issued share capital of the Company and approximately 4.69% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Second Subscription Shares and the Capitalisation Shares. Please refer to the section headed "Change in the shareholding structure of the Company" for the shareholding structure of the Company upon completion of the Loan Capitalisation, the Subscription and the Second Subscription. The Company will make an application for the listing of, and permission to deal in the Second Subscription Shares.

Conditions of the Second Subscription Agreement

Completion shall be conditional upon satisfaction of the following conditions precedent:

(i) all necessary approvals by the Shareholders for the Second Subscription having been obtained, including approval for the increase in authorised share capital of the Company and the authority to allot the Second Subscription Shares;

(ii) the Stock Exchange granting approval for listing of, and permission to deal in the Second Subscription Shares to be issued pursuant to the Second Subscription; and

(iii) the lifting of the suspension in, and the resumption of, trading in the Shares on GEM.

Goodfit Properties may at its discretion waive some or all of the above conditions precedent.

The subscription price

The subscription price of HK$0.01 per Second Subscription Share was determined after arm's length negotiations with Goodfit Properties. The subscription price of HK$0.01 per Second Subscription Share is the same as and is fixed with reference to the subscription price for the Subscription Shares of HK$0.01 each.

Ranking

The Second Subscription Shares, when allotted and issued, will rank pari passu in all respects among themselves and with the then issued Shares, the Capitalisation Shares and the Subscription Shares, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Second Subscription Shares.

DEBT RESTRUCTURING WITH THE CREDITORS OF THE REMAINING GROUP

On 15th April, 2004, the Company and China Unicom reached a settlement agreement (the "Settlement Agreement") in respect of the litigation relating to amounts alleged to be owed by Infoserve HK to China Unicom for international roaming and Internet and/or other computer networking services. Details of the litigation are set out in the paragraph headed "Litigation" in Appendix II to this circular. It was agreed under the Settlement Agreement that the Company shall repay HK$2.7 million as full and final settlement for the judgment debt of approximately HK$3.23 million owed to China Unicom. Upon application by the Company and China Unicom, a consent order was issued by the Court on 16th April, 2004 pursuant to which the Company shall repay the aforesaid HK$2.7 million by two instalments, of which the first instalment of HK$300,000 has been paid by the Company on 16th April, 2004 and the second instalment shall be paid on or before 18th June, 2004. On 12th May, 2004, the Company, Success Harmony and Mr. Yu entered into the Loan Capitalisation Agreement under which part of the Loan will be capitalised. Details of the Loan Capitalisation are set out in the immediate following section headed "Loan Capitalisation" below.

THE LOAN CAPITALISATION

The Loan Capitalisation Agreement

Borrower: The Company

Lender: Success Harmony. Success Harmony and its beneficial owner are not connected persons (as defined under the GEM Listing Rules) of the Company or parties acting in concert with the Subscriber or any connected persons of the Company. Success Harmony and its beneficial owner did not hold any Shares as at the Latest Practicable Date.

Guarantor: Mr. Yu, the Chairman of the Company and an executive Director

In February 2004, Success Harmony advanced to the Company a HK$4 million three-month short term loan. The Loan is guaranteed by Mr. Yu. Mr. Yu has not received any consideration nor been provided with any counter-indemnity by the Company in consideration for his agreement to act as guarantor for the Loan. On this basis, the Loan qualifies as an exempted connected transaction of the Company under the GEM Listing Rules.

On 12th May, 2004, Success Harmony, the Company and Mr. Yu entered into the Loan Capitalisation Agreement whereby the Company agreed to allot and issue the Capitalisation Shares to Success Harmony, credited as fully paid by way of capitalisation of HK$2.6 million of the principal amount of the Loan and the interests accrued and to be accrued on the entire principal amount of the Loan of HK$4 million up to and including the date of completion of the Loan Capitalisation Agreement and Success Harmony agreed to subscribe the Capitalisation Shares subject to the terms and conditions of the Loan Capitalisation Agreement. For reference purposes only, the amount of interest accrued on the principal amount of the Loan of HK$4 million up to and including 14th May, 2004 was approximately HK$108,000. On this basis, a total of approximately 270,800,000 Capitalisation Shares will be allotted and issued under the Loan Capitalisation. The remaining balance of the principal amount of the Loan amounting to HK$1.4 million will be repaid by the Company in cash at completion of the Loan Capitalisation Agreement. The cash repayment of HK$1.4 million will be financed by the proceeds of HK$1.4 million to be raised from the Second Subscription. Please refer to the paragraph headed "The Second Subscription" above for details of the Second Subscription.

The Capitalisation Shares

The Capitalisation Shares represent approximately 47.06% of the existing issued share capital of the Company, and approximately 9.07% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Second Subscription Shares and the Capitalisation Shares. Please refer to the paragraph headed "Change in shareholding structure of the Company" below for the shareholding structure of the Company upon completion of the Loan Capitalisation, the Subscription and the Second Subscription. The Company will make an application to the Stock Exchange for the listing of, and permission to deal in the Capitalisation Shares.

Conditions of the Loan Capitalisation Agreement

Completion shall be conditional upon satisfaction of the following conditions precedent:

(i) all necessary approvals by the Shareholders for the Loan Capitalisation having been obtained, including approval for the increase in authorised share capital of the Company and the authority to allot the Capitalisation Shares;

(ii) the Stock Exchange granting approval for listing of, and permission to deal in the Capitalisation Shares to be issued pursuant to the Loan Capitalisation; and

(iii) the lifting of the suspension in, and the resumption of, trading in the Shares on GEM.

Success Harmony may at its discretion waive some or all of the above conditions precedent.

The subscription price

The subscription price of HK$0.01 per Capitalisation Share was determined after arm's length negotiations with Success Harmony. The subscription price of HK$0.01 per Capitalisation Share is the same as and is fixed with reference to the subscription price for the Subscription Shares of HK$0.01 each.

Ranking

The Capitalisation Shares, when allotted and issued, will rank pari passu in all respects among themselves and with the then issued Shares, the Subscription Shares and the Second Subscription Shares, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Capitalisation Shares.

CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the shareholding structure of the Company immediately prior to and following completion of the Loan Capitalisation, the Subscription and the Second Subscription based on the number of issued Shares as at the Latest Practicable Date:

	As at the Latest Practicable Date		After completion of the Subscription, Loan Capitalisation and Second Subscription	
	Shares (million)	*%*	*Shares (million)*	*%*
Subscriber	–	–	2,000.0	66.97
Success Harmony	–	–	270.8	9.07
Goodfit Properties	–	–	140.0	4.69
Mr. Chang Hsiao Hui, Michael ("Mr. Chang") *(Note 1)*	103.2	17.93	103.2	3.46
Mr. Tsai Tun Chi ("Mr. T.C. Tsai") *(Note 1)*	1.2	0.20	1.2	0.04
KA Land *(Note 2)*	143.8	24.99	143.8	4.82
Mr. Tsai Jenp Luh ("Mr. J.L. Tsai") *(Note 3)*	99.5	17.30	99.5	3.33
Other Public Shareholders	227.7	39.58	227.7	7.62
Total	575.4	100.00	2,986.2	100.00

Notes: (1) Mr. Chang and Mr. T.C. Tsai are Directors and their interests do not form part of the public float.

(2) After completion of the Loan Capitalisation, the Subscription and the Second Subscription, the interest of KA Land will be diluted to below 10%. Therefore, KA Land will cease to be a connected person of the Company (as defined under the GEM Listing Rules) and its shareholding would be counted as part of the public float after completion of the Loan Capitalisation, the Subscription and the Second Subscription.

(3) Mr. J.L Tsai is a director of Infoserve Singapore and Infoserve Japan, therefore he is a connected person of the Company (as defined under the GEM Listing Rules). Mr. J.L. Tsai's shareholding in the Company will not be counted as part of the public float after completion of the Loan Capitalisation, the Subscription and the Second Subscription.

Immediately upon completion of the Loan Capitalisation, the Subscription and the Second Subscription, the Subscriber will become the controlling Shareholder holding approximately 66.97% of the issued share capital of the Company as enlarged by the allotment and issue of the Capitalisation Shares, the Subscription Shares and the Second Subscription Shares and the public float of the Company will be approximately 26.2% which complies with the 25% minimum public float requirement of the GEM Listing Rules.

As at the Latest Practicable Date, the Company has an aggregate of 2,280,000 outstanding Pre-IPO Share Options with an exercise price of HK$0.70 each and an aggregate of 3,000,000 outstanding Post-IPO Share Options with an exercise price of HK$1.212 each. The exercise in full of the subscription rights attaching to these share options would result in the issue of an aggregate of 5,280,000 Shares. Moreover, upon conversion of the Convertible Notes and the Warrants in full, the Company would need to issue an additional 39,000,000 new Shares and 4,721,040 new Shares respectively, before taking into account any adjustment that may arise as a result of the Loan Capitalisation, the Subscription and the Second Subscription. Save for the aforesaid, the Company has no other outstanding options, warrants, derivatives or other securities that are convertible into Shares.

INFORMATION ON THE SUBSCRIBER

The Subscriber is a special purpose vehicle and has not carried on any substantive business activities since its incorporation on 25th November, 2003 other than the entering into of the Subscription Agreement. The Subscriber is owned as to 30.62% by Worldtime, 65.00% by Hopewell and 4.38% by Concord Pacific. Worldtime is owned as to 99.00% by Dr. Li and 1.00% by Mr. Chang Jiaxing. Hopewell is owned as to 75.00% by Mr. Gui and 25.00% by Dr. Li. Concord Pacific is owned as to 80.00% by Mr. Tang Xueyi and 20.00% by Ms. Cheung Kwan. The directors of the Subscriber are Mr. Gui and Dr. Li and their brief biographical details are as follows:

Mr. Gui, aged 49, graduated from Jianxi Technical College（江西工學院）(presently known as Nanchong University) in 1980. Mr. Gui has substantial management experience in various industries including information technology, automobile and digital technology. He is presently the managing director of a private investment holding company in the PRC.

Dr. Li, aged 31, graduated from Zhejiang University with a bachelor degree and, a doctor degree in optical engineering in 1994 and 2000 respectively. Dr. Li has several years of experience in research and development in the field of optical and digital technology in Japan and the PRC. She is presently the managing director of a private digital technology company in the PRC.

Save for entering into the Subscription Agreement, neither the Subscriber nor parties acting in concert with it have dealt in the Shares in the six months prior to the date of the Subscription Agreement. The Subscriber and its concert parties also informed that they will not deal in the Shares during the period up to and including the date of the EGM.

Mr. Gui and Dr. Li would be nominated by the Subscriber to the Board upon completion of the Subscription Agreement. The Subscriber intends to appoint sufficient number of new Directors which will constitute a majority of the Board and therefore may procure further members to be appointed to the Board at or following completion of the Subscription Agreement. Nevertheless, the Subscriber does not expect that a decision on the further nomination to the Board will be made before the date of the EGM. Save for the aforesaid, the Subscriber has no intention to make any material changes to the existing management and employees of the Remaining Group.

TAKEOVERS CODE IMPLICATIONS FOR THE SUBSCRIBER

Upon completion of the Loan Capitalisation, the Subscription and the Second Subscription, the Subscriber and its concert parties will become the controlling Shareholder of the Company holding approximately 66.97% of the issued share capital of the Company as enlarged by the issue of the Capitalisation Shares, the Subscription Shares and the Second Subscription Shares. In the absence of the Whitewash Waiver, the Subscriber and parties acting in concert with it will be required under Rule 26 of the Takeovers Code to make a general offer for all the issued Shares not already owned or controlled by the Subscriber and parties acting in concert with it. The Subscriber has, however, made an application to the Executive pursuant to Note 1 to Notes on Dispensations from Rule 26 of the Takeovers Code for the Whitewash Waiver, and the Executive has indicated that, subject to the approval by the Independent Shareholders (being Shareholders other than Mr. J.L. Tsai, Mr. T.C. Tsai, Mr. Chang and their respective concert parties), by way of a poll at the EGM, the Whitewash Waiver will be granted.

Mr. T.C. Tsai was an executive Director until he was re-designated as an non-executive Director on 17th May, 2004. Mr. T.C. Tsai has been involved in his capacity as executive Director in the negotiation and discussion between the Company and the Subscriber leading to the signing of the Subscription Agreement on 18th March, 2004. As a result, Mr. T.C. Tsai would not be allowed to vote on the Whitewash Waiver under the Takeovers Code. According to the books and records of Infoserve Taiwan, there was an outstanding sum due from Infoserve Taiwan to Mr. Chang as at 1st October, 2003. Infoserve Taiwan is the subject of the Taiwan Operations Disposal Agreement, completion of which is one of the conditions precedent to the completion of the Subscription Agreement. Mr. Chang and Mr. J.L. Tsai have also given personal guarantees in respect of certain liabilities of the Group. As a result, Mr. Chang and Mr. J.L. Tsai are considered to have perceived indirect interests in the Subscription and accordingly would not be allowed to vote on the Whitewash Waiver under the Takeovers Code. Shareholders other than Mr. T.C. Tsai, Mr. J.L. Tsai and Mr. Chang and their respective concert parties are not involved in, or interested in, the Subscription and therefore are allowed to vote on the Whitewash Waiver under the Takeovers Code.

The grant of the Whitewash Waiver from the Executive is one of the conditions precedent to the Subscription Agreement. The Executive has indicated that, subject to the approval by the Independent Shareholders (being Shareholders other than Mr. J.L. Tsai, Mr. T.C. Tsai, Mr. Chang and their respective concert parties) by way of a poll at the EGM, the Whitewash Waiver will be granted. If the Whitewash Waiver is approved by the Independent Shareholders, the Subscriber will not be required to make a general offer to the Shareholders under Rule 26 of the Takeovers Code as a result of the issue of the Subscription Shares.

Upon completion of the Loan Capitalisation, the Subscription and the Second Subscription, the Subscriber will hold more than 50% of the issued share capital of the Company as enlarged by the issue of the Capitalisation Shares, the Subscription Shares and the Second Subscription Shares. Accordingly, the Subscriber may purchase and/or subscribe for additional Shares without triggering any further obligation for a general offer under the Takeovers Code.

Other than pursuant to the Subscription Agreement, neither the Subscriber nor any parties acting in concert with it was interested in any Shares, options, warrants, derivatives or securities convertible into Shares as at the Latest Practicable Date, nor had they dealt in the Shares during the six months prior to the date of the Subscription Agreement. The Subscriber and its concert parties also informed that they will not deal in the Shares during the period up to and including the date of the EGM.

THE DISPOSAL OF THE BUSINESS INTERESTS IN TAIWAN, THE PRC AND THE UNITED STATES

Vendor: the Company

Purchaser: Mr Choi Wai Him, who is not a Shareholder nor a connected person (as defined under the GEM Listing Rules) of the Company, or of the Subscriber, or a party acting in concert with any of them.

On 18th March, 2004, the Company and Mr. Choi entered into three sets of separate agreements, being the Taiwan Operations Disposal Agreement, the PRC Operations Disposal Agreement and the US Operations Disposal Agreement, pursuant to which the Company agreed to sell and Mr. Choi agreed to acquire from the Company its entire equity interest in each of Infoserve Taiwan, Infoserve PRC and

Infoserve US at a consideration of HK$1.00, HK$1.00 and US$1.00 respectively. The consideration for the Disposals were arrived at after arm's length negotiation between the Company and Mr. Choi after considering factors as stated in the paragraph headed "Reasons for and effects of the Disposals" below. Pursuant to the terms of the Disposal Agreements, the inter-company balances between Infoserve Taiwan, Infoserve PRC and Infoserve US and the members of the Remaining Group and Infoserve HK would be waived, save that any payables due to Infoserve HK will not be waived as Infoserve HK is in liquidation and the Company is no longer able to procure such a waiver. The Board is of the view that the terms of the Disposal Agreements are fair and reasonable and in the interest of the Shareholders as a whole.

Completion of the Disposals is conditional upon:

(i) the approval by the Shareholders of the Disposal Agreements and transactions contemplated therein; and

(ii) all other necessary consents and approvals (including approvals and consents from governmental and regulatory authorities) for the entering into of the Disposal Agreements and the implementation of the transactions contemplated therein.

The expected completion date for the disposals of (i) Infoserve Taiwan and Infoserve US is 1st September, 2004 and (ii) Infoserve PRC is the date falling one business day following the date of approval by the Ministry of Commerce in the PRC of the sale of the entire interest in Infoserve PRC, or such other date as may be agreed between the Company and Mr. Choi.

Principal business of the Infoserve Taiwan, Infoserve PRC and Infoserve US

Infoserve Taiwan and Infoserve US were previously engaged in the provision of communications services, Internet access and related services, VPN and other solution services in Taiwan and United States respectively. Infoserve Taiwan ceased trading in November 2003, and Infoserve US has been dormant since the beginning of 2003. Infoserve PRC was previously a sales and representative office providing technical support and consultancy services to the Group's ISP partners in the PRC. Infoserve PRC ceased operations in November 2003.

The following is a summary of the net losses of the Group for the three years ended 31st December, 2003 and its net deficit position as at 31st December, 2003, the net losses of Infoserve Taiwan, Infoserve PRC and Infoserve US for the past three financial years or period and their net deficit position as at 1st October, 2003:

	Net loss for the year ended 31st December,			Net deficit as at 31st December,
	2001	**2002**	**2003**	**2003**
	(in thousands)	*(in thousands)*	*(in thousands)*	*(in thousands)*
The Group *(Note 1)*	US$27,526 (equivalent to approximately HK$214,703)	US$8,631 (equivalent to approximately HK$67,322)	US$1,459 (equivalent to approximately HK$11,380)	US$2,616 (equivalent to approximately HK$20,405)

	Net loss for the year/period ended			Net deficit as at
	31st December, 2001	31st December, 2002	1st October, 2003 *(Note 5)*	1st October, 2003 *(Note 5)*
	(in thousands)	*(in thousands)*	*(in thousands)*	*(in thousands)*
Infoserve Taiwan *(Note 2)*	NT$625,967 (equivalent to approximately HK$146,152)	NT$73,462 (equivalent to approximately HK$17,152)	NT$378,287 (equivalent to approximately HK$88,323)	NT$163,650 (equivalent to approximately HK$38,209)
Infoserve PRC *(Note 3)*	RMB2,142 (equivalent to approximately HK$2,021)	RMB3,134 (equivalent to approximately HK$2,957)	RMB1,774 (equivalent to approximately HK$1,674)	RMB1,708 (equivalent to approximately HK$1,611)
Infoserve US *(Note 4)*	US$3,711 (equivalent to approximately HK$28,946)	US$1,922 (equivalent to approximately HK$14,992)	US$178 (equivalent to approximately HK$1,388)	US$3,217 (equivalent to approximately HK$25,093)

Notes:

(1) Figures for the three years ended 31st December, 2003 are based on the audited reports of the Company. The results of the Group for the year ended 31st December, 2003 have included results from Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK for the period from 1st January, 2003 to 1st October, 2003. As regards the Group's net deficit as at 31st December, 2003, the figure does not include assets and liabilities of Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK which have been de-consolidated from the Group's accounts since 1st October, 2003.

(2) Figures for the two years ended 31st December, 2002 are based on the audited accounts of Infoserve Taiwan for the year ended 31st December, 2002 prepared by its Taiwan auditors.

(3) Figures for the two years ended 31st December, 2002 are based on the audited accounts of Infoserve PRC for the two years ended 31st December, 2002 prepared by its PRC auditors.

(4) Figures for the two years ended 31st December, 2002 are based on the unaudited management accounts of Infoserve US prepared by the Company.

(5) As set out fully on pages 8 to 10 of the Company's annual report for the year ended 31st December, 2003, the Company ceased to exercise control over the financial and operational affairs of Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK since 1st October, 2003. As a result, the books and records of Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK were last updated to 1st October, 2003 only and since then these companies have been de-consolidated from the Group's accounts.

Reasons for and effects of the Disposals

As mentioned in the Company's announcement dated 27th November, 2003, the business operations of Infoserve Taiwan has been suspended since 14th November, 2003 due to staff departure and disconnection of services by network service providers in Taiwan. In addition, an injunction order was imposed on Infoserve Taiwan by a court in Taiwan which prevents the collection of certain trade receivables from its major customers. In view of the above, it is believed that the collection of such receivables would be a lengthy and difficult process and full recovery would be unlikely. Details of litigation against Infoserve Taiwan are set out in the paragraph headed "Litigation" in Appendix II.

The suspension of the Group's operations in Taiwan also has negative impacts on Infoserve PRC whose principal activity was the provision of support services to customers of Infoserve Taiwan with operations in the PRC. Both Infoserve Taiwan and Infoserve PRC were operating at a loss for the two years ended 31st December, 2002. As regards Infoserve US, it has been dormant since the beginning of 2003.

Infoserve Taiwan and Infoserve PRC had managed to maintain some operations during the period from 1st October, 2003 to November 2003. Infoserve Taiwan saw serious staff departure during October 2003. The situation had worsened further when the entire account team resigned with effect from 11th November, 2003. In November, Infoserve Taiwan also faced disconnection of services by network service providers in Taiwan. Because of these crises, the Company had difficulties in accessing the financial records and documents of Infoserve Taiwan. As stated in the 2003 annual report of the Company, the Company had tried to contact the former financial controller of Infoserve Taiwan with a view to seeking proper handover of the books and records of the Infoserve Taiwan but of no avail. In the meantime in November 2003, the Company was not able to contact the management and officers of Infoserve PRC and Infoserve US. In addition, the Company no longer has control over Infoserve HK, which has been put in liquidation. In the circumstances, the Directors had to conclude that the Group had lost effective control over Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK. As no financial records and other information of these subsidiaries since 1st October, 2003 were made available to the Company, the Company could not include results of those subsidiaries since 1st October, 2003. Accordingly, the financial results of Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK since 1st October , 2003 have not been included in the Company's income statements for the year ended 31st December, 2003 and their accounts have been deconsolidated from the Group's accounts since 1st October, 2003.

In the past months, the Company has reviewed and considered various measures and it is decided that the Group should carry out a corporate restructuring which would enable the Group to divest loss-making operations and improve the financial condition. The disposal of the Group's operations in Taiwan, the PRC and US would enable the Group to extinguish the significant outstanding liabilities of Infoserve Taiwan, Infoserve PRC and Infoserve US. For reference purposes only, the aggregate outstanding liabilities of Infoserve Taiwan, Infoserve PRC and Infoserve US with third parties as at 1st October, 2003 was approximately US$21.3m (equivalent to approximately HK$166.1m). On this basis, the Company believes that the implementation of the group restructuring through the Disposals is in the interest of the Shareholders as a whole.

The gain to the Group arising from the Disposals is approximately US$5.2 million (equivalent to approximately HK$40.6 million) which has been accounted for in the Company's audited consolidated financial statements for the year ended 31st December, 2003. Following completion of the Disposals, the Company would focus its resources on its business in Japan and Singapore. Members of the Remaining Group would include the Company, Infoserve Japan and Infoserve Singapore. For reference purposes only, the turnover of the Group, Infoserve Taiwan, Infoserve HK, Infoserve Singapore and Infoserve Japan for the year ended 31st December, 2003 was approximately US$17.0 million (equivalent to approximately HK$132.6 million), US$14.5 million (equivalent to approximately HK$113.1 million), US$0.3 million (equivalent to approximately HK$2.3 million), US$1.83 million (equivalent to approximately HK$14.27 million) and US$0.27 million (equivalent to approximately HK$2.11 million) respectively. Infoserve US and Infoserve PRC did not have any turnover for the year ended 31st December, 2003. The Remaining Group recorded a net loss of approximately US$1.46 million (equivalent to approximately HK$11.38 million) for the year ended 31st December, 2003, which included a net loss of US$49,837 (equivalent to approximately HK$388,729) attributable to Infoserve Singapore and a net profit of approximately US$26,753 (equivalent to approximately HK$208,673) attributable to Infoserve Japan. Infoserve HK is now in liquidation. As Infoserve HK ceased trading in November 2003 and has negligible negative net assets, its liquidation would not have significant impact on the financial and operating position of the Group.

GEM Listing Rules Requirements

Under the GEM Listing Rules, each of the disposals of the entire equity interest in Infoserve Taiwan, Infoserve PRC and Infoserve US by the Company constitutes a major transaction for the Company and accordingly the Disposals are subject to approval of Shareholders at the EGM. No Shareholder is required to abstain from voting on the resolutions to be proposed for the purpose of approving the Disposals.

INFORMATION ON THE GROUP

The Group is principally engaged in the provision of communications and Internet access and related services. Following completion of the disposals of the Group's operations in Taiwan, the PRC and US, the Remaining Group will continue to carry out the existing business mentioned above but will focus on Japan and Singapore.

Infoserve Singapore is mainly engaged in the provision of communications services, Internet access and related services in Singapore. Since the beginning of year 2003, Infoserve Singapore has adopted a revenue sharing management model in order to streamline the operations and reduce operating costs. The Group has appointed an experienced telecommunications manager (the "Manager") to manage its operations in Singapore. The remuneration to the Manager is determined by reference to the performance of the operations of Infoserve Singapore. Since adoption of the model, Infoserve Singapore recorded a significant increase of over four times in total revenue to approximately US$1.8 million (equivalent to approximately HK$14.0 million) for the year of 2003 and the number of customers of the operations has also been increased by more than three times to 850 customers by the end of 2003.

Infoserve Japan is mainly engaged in the provision of systems integration and network management services. The Group has developed a business relationship with FLAP, a Japanese mobile communications operator. The Group has built and operates an integrated platform for the provision of facsimile, voice, video conference and internet access services to FLAP's personal digital assistant users in Japan.

Based on the annual report of the Company for 2003, the net loss attributable to Shareholders for the two years ended 31st December, 2003 was approximately US$8.63 million (equivalent to approximately HK$67.32 million) and US$1.46 million (equivalent to approximately HK$11.39 million) respectively and the audited consolidated net deficit of the Remaining Group as at 31st December, 2003 was approximately US$2.62 million (equivalent to approximately HK$20.44 million). For details of the financial information of the Group for the year ended 31st December, 2003, please refer to the 2003 annual report of the Company despatched on 31st March, 2004. According to the first quarterly results announcement of the Company, the turnover of the Remaining Group for the three months ended 31st March, 2004 amounted to US$687,000, representing a decrease of 88.1% over the turnover from corresponding period of US$5,770,000 in 2003. Nevertheless, the net loss attributable to Shareholders for the same period has narrowed by 86.6% to US$239,000 from US$1,784,000 for the corresponding period in 2003.

As mentioned in the paragraph headed "Reasons for and effects of the Disposals" above, the Group has experienced liquidity problems and disruption in business operations in Taiwan and PRC since November 2003. After reviewing and considering various measures and proposals, the Company believes that the implementation of the Restructuring Proposal is in the interest of the Shareholders as a whole. The benefits of the Restructuring Proposal include the extinguishment of a significant portion of the Group's liabilities and the improvements in its financial position. In addition, following completion of the proposal, the management of the Company can refocus their efforts on the development of the Remaining Group's business.

FUTURE INTENTIONS OF THE SUBSCRIBER

Leveraging on the previous experience of Mr. Gui and Dr. Li in digital technology, the Subscriber considered that the market for communication and Internet access markets in Japan, Singapore and the Greater China region would offer great potential and opportunity to the Remaining Group in the long run. However, the Subscriber has no intention of injecting any assets or business into the Remaining Group. Following completion of the Subscription Agreement, the Subscriber intends that the Remaining Group will continue its existing business of provision of communications and internet access and related services and explore business opportunities in other sectors which can complement the Remaining Group's business. The Subscriber does not intend to re-deploy or dispose of any of the assets of the Remaining Group other than in the ordinary course of business. The directors of the Subscriber will conduct a review of the financial positions and operations of the Remaining Group with a view to strengthening the operations and enhancing future development of the Remaining Group after completion of the Subscription Agreement.

It is the intention of the Subscriber to maintain the listing of the Company on the Stock Exchange. **The Stock Exchange has stated that it will closely monitor the dealing in the Shares on the Stock Exchange. The Stock Exchange has also stated that, if less than 25% of the issued Shares are in public hands following completion of the Subscription, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.**

The Stock Exchange has stated that if the Company remains as a listed company, the Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. Any acquisitions or disposals of assets by the Company will be subject to the provisions of the GEM Listing Rules. Pursuant to the GEM Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and/or a circular to its shareholders irrespective of the size of any proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of the Company. The Stock Exchange also has the power pursuant to the GEM Listing Rules to aggregate a series of acquisitions of assets by the Company and any such acquisitions may result in the Company being treated as if it were a new listing applicant and subject to the requirements of new listing applications as set out in the GEM Listing Rules.

INCREASE IN AUTHORISED SHARE CAPITAL

The existing authorised share capital of the Company consists of 800,000,000 Shares, of which 575,382,456 Shares were in issue as at the Latest Practicable Date. The Directors proposed to increase the authorised share capital of the Company from HK$8,000,000 to HK$50,000,000 by the creation of an additional 4,200,000,000 Shares. The proposed increase in authorised share capital of the Company is subject to approval by the Shareholders at the EGM.

EGM

Set out in this circular is a notice convening the EGM which will be held at the Meeting Room at Island Pacific Hotel, 152 Connaught Road West, Hong Kong at 10:00 a.m. on 7th June, 2004 at which resolutions will be proposed to approve, among other things, the Loan Capitalisation, the Subscription, Second Subscription, the Disposals, the Whitewash Waiver and the increase in authorised share capital.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying form of proxy and return it in accordance with the instruction printed thereon as soon as possible to the principal place of business of the Company on 11/F, Ying Kong Mansion, 2-6 Yee Wo Street, Causeway Bay, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the EGM. Delivery of a form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 25 of this circular. Independent Shareholders are urged to read carefully the opinion of Altus Capital and the advice of the Independent Board Committee before deciding how to vote at the EGM.

The Directors believe that the Loan Capitalisation, the Subscription, the Second Subscription, the Disposals, the Whitewash Waiver and the increase in authorised share capital are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to approve the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Disposal Agreements, the Whitewash Waiver and the increase in authorised share capital.

GENERAL

Completion of the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement and the Disposal Agreements is conditional upon fulfillment of the conditions set out above. The issue of this circular does not indicate that the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement and the Disposal Agreements will be successfully implemented and completed.

Your attention is drawn to the letters from Altus Capital and the Independent Board Committee and the additional information set out in the appendices to this circular.

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

INFOSERVE TECHNOLOGY CORP.
英普達資訊科技有限公司*

(Incorporated in the Cayman Islands with limited liability)

21st May, 2004

To the Independent Shareholders

Dear Sir or Madam,

As the Independent Board Committee, we have been appointed to advise you in connection with the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Disposal Agreements and the Whitewash Waiver, details of which are set out in the Letter from the Board contained in this circular to the Shareholders dated 21st May, 2004, of which this letter forms part. Terms defined in this circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Disposal Agreements and the Whitewash Waiver and the advice of Altus Capital in relation thereto as set out on pages 26 to 42 of this circular, we are of the opinion that the terms of the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Disposal Agreements and the Whitewash Waiver are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend that you vote in favour of the resolutions to be proposed at the EGM to approve the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Disposal Agreements and the Whitewash Waiver.

Yours faithfully,
Independent Board Committee
Mr. Leung Hong Tai **Mr. Ip Man Tin, David**
Independent non-executive Directors

* *For identification purpose only*

The following is the full text of the letter from Altus Capital setting out its advice to the Independent Board Committee in relation to the Loan Capitalisation Agreement, the Subscription Agreement, the Second Subscription Agreement, the Disposal Agreements and the Whitewash Waiver and for the inclusion in this circular.

ALTUS CAPITAL LIMITED
8/F Hong Kong Diamond Exchange Building
8 Duddell Street, Central
Hong Kong

21st May, 2004

To the Independent Board Committee of
Infoserve Technology Corp.

Dear Sirs,

MAJOR TRANSACTIONS
INCLUDING
THE SUBSCRIPTION (INVOLVING THE WHITEWASH WAIVER)
AND THE DISPOSALS OF BUSINESS INTERESTS

LOAN CAPITALISATION,
SECOND SUBSCRIPTION,
AND
INCREASE IN AUTHORISED SHARE CAPITAL

INTRODUCTION

We refer to our appointment as the financial adviser to advise the Independent Board Committee in respect of (i) the terms of the Subscription Agreement; (ii) the Second Subscription Agreement; (iii) the Loan Capitalisation Agreement, (iv) the Whitewash Waiver; and (v) the Disposal Agreements, details of which are set out in the letter from the Board (the "Letter") contained in the circular (the "Circular") dated 21st May, 2004 issued by the Company to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 18th March, 2004, the Company entered into the Subscription Agreement with the Subscriber in which the Company agreed to allot and issue and the Subscriber agreed to subscribe in cash for a total of 2,000,000,000 new Shares at a subscription price of HK$0.01 per Subscription Share. On the same date, the Company and Mr. Choi entered into three sets of separate agreements, being the Taiwan Operations Disposal Agreement, the PRC Operations Disposal Agreement and the US Operations Disposal Agreement pursuant to which the Company agreed to sell and Mr. Choi agreed to acquire from the Company its entire equity interest in each of Infoserve Taiwan, Infoserve PRC and Infoserve US at a consideration of HK$1.00, HK$1.00 and US$1.00 respectively.

On 12th May, 2004, Success Harmony, the Company and Mr. Yu entered into the Loan Capitalisation Agreement whereby the Company agreed to allot and issue the Capitalisation Shares to Success Harmony, credited as fully paid up by way of capitalisation of HK$2.6 million of the principal amount of the Loan and the interests accrued and to be accrued on the entire principal amount of the Loan up to and including the date of completion of the Loan Capitalisation Agreement and Success Harmony agreed to subscribe the Capitalisation Shares subject to the terms and conditions of the Loan Capitalisation Agreement. For reference purpose, the amount of interest accrued on the principal amount of the Loan up to and including 14th May, 2004 was approximately HK$108,000. On this basis, a total of approximately 270,800,000 Capitalisation Shares will be allotted and issued under the Loan Capitalisation. The remaining balance of the Loan amounting to HK$1.4 million will be repaid by the Remaining Group in cash at the completion of the Loan Capitalisation Agreement.

On 12th May, 2004, the Company also entered into the Second Subscription Agreement in relation to the subscription of 140,000,000 new Shares at HK$0.01 each by Goodfit Properties. The cash repayment of HK$1.4 million pursuant to the Loan Capitalisation Agreement will be financed by the proceeds of HK$1.4 million to be raised from the Second Subscription.

Upon completion of the Subscription, the Loan Capitalisation and the Second Subscription, the Subscriber and parties acting in concert with it will hold approximately 66.97% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares, the Capitalisation Shares and the Second Subscription Shares under the Subscription, the Loan Capitalisation and the Second Subscription and would be required to make a mandatory general offer pursuant to Rule 26 of the Takeovers Code. Completion of the Subscription is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive; the approval of the transactions contemplated under the Subscription Agreement and the Whitewash Waiver by the Independent Shareholders; execution of the Disposal Agreements having been approved by the Shareholders; and the lifting of the suspension in, and the resumption of, trading in the Shares on GEM. Completion of the Disposals is a condition precedent to the Subscription Agreement. Completion of the Loan Capitalisation shall be conditional upon, among other things, all necessary approvals by the Shareholders for the Loan Capitalisation being obtained; the Stock Exchange granting approval for listing and permission to deal in the Capitalisation Shares to be issued pursuant to the Loan Capitalisation; and the lifting of the suspension in, and the resumption of, trading in the Shares on GEM. Completion of the Second Subscription Agreement shall be conditional upon, among other things, the approval by the Shareholders for the Second Subscription being obtained; the Stock Exchange granting approval for listing and permission to deal in the Second Subscription Shares to be issued pursuant to the Second Subscription; and the lifting of the suspension in, and the resumption of, trading in the Shares on GEM.

The Independent Board Committee, comprising Mr. Leung Hong Tai and Mr. Ip Man Tin, David, has been formed to consider the terms of the Subscription Agreement, the Loan Capitalisation Agreement, the Second Subscription Agreement, the Whitewash Waiver and the Disposal Agreements. Mr. Yu is an executive Director and has been involved in the negotiation of the Subscription Agreement and formulating the restructuring proposal of the Group. He has advanced funds to the Company and has provided guarantees in respect of certain indebtedness of the Company. Mr. Chang is an executive Director who owns 103.2 million Shares and has given personal guarantees in respect of certain liabilities of the Group. Mr. Tsai Tun Chi is a non-executive Director and has been involved in the negotiation of the Subscription Agreement and formulating the restructuring proposal of the Group. He also owns 1,200,000

Shares. Therefore, Mr. Yu, Mr. Chang and Mr. Tsai Tun Chi are not considered independent to make any advice or recommendation to the Independent Shareholders in relation to the Subscription, the Loan Capitalisation, the Second Subscription, the Whitewash Waiver and the Disposal Agreements.

As the financial advisers to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee and to advise the Independent Shareholders as to whether or not the terms and conditions of the Subscription Agreement, the Loan Capitalisation Agreement, the Second Subscription Agreement, the Whitewash Waiver and the Disposal Agreements are fair and reasonable so far as the Independent Shareholders are concerned.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the accuracy of the information and facts supplied by, the opinions expressed by and the representations of the Directors concerning the Group, Success Harmony, Goodfit Properties and Mr. Choi and the directors of the Subscriber concerning the Subscriber, including those facts, opinions and representations set out in the Circular. We have assumed that all information, facts, opinions and representations made or referred to in the Circular were true at the time they were made and continued to be true at the date of the Circular. We have no reason to doubt the truth, accuracy and completeness of the information, facts, opinions and representations provided to us by the Directors and the directors of the Subscriber. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinion expressed and we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular or the reasonableness of the opinions and representations expressed by the Group and the Subscriber, which have been provided to us.

The Directors (excluding Mr. Chang who is not contactable at his last known addresses up to the Latest Practicable Date) collectively and individually accept full responsibility for the accuracy of the information contained in the Circular (other than those information relating to the Subscriber and parties acting in concert with it) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those expressed by the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular (other than those relating to the Subscriber), the omission of which would make any statement in the Circular misleading. The directors of the Subscriber accept full responsibility for the accuracy of information contained in the Circular (other than those information relating to the Group) and confirm, having made all reasonable inquiries, that to the best of his knowledge, opinions expressed in the Circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular (other than those relating to the Group), the omission of which would make any statement in the Circular misleading. We have no reason to suspect that such information is inaccurate or that any material facts have been omitted or withheld from the information supplied or opinions expressed in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have relied on such information and opinions and have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospect of the Group, the Subscriber or their respective associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion regarding the terms of the Subscription Agreement, the Loan Capitalisation Agreement, the Second Subscription Agreement, the Whitewash Waiver and the Disposal Agreements, we have taken into consideration the following principal factors and reasons:

A. The Subscription Agreement, the Loan Capitalisation Agreement and the Second Subscription Agreement

1. Current business situation of the Group

The Company, through its subsidiaries, is principally engaged in the provision of communications and Internet access and related services. As stated in the Letter, since September 2003, the Group has been operating under serious cashflow and liquidity problems. Currently, the Group has six major subsidiaries, i.e. Infoserve Taiwan, Infoserve US, Infoserve PRC, Infoserve HK, Infoserve Singapore and Infoserve Japan. Infoserve Taiwan and Infoserve US were previously engaged in the provision of communication services, Internet access and related services, VPN and other solution services in Taiwan and United States respectively. Infoserve Taiwan ceased trading in November 2003, and Infoserve US has been dormant since the beginning of 2003. Infoserve PRC, which ceased operations in November 2003, was previously a sales and representative office providing technical support and consultancy services to the Group's ISP partners in the PRC. As stated in the Company's annual report (the "Annual Report") for the year ended 31st December, 2003, the operation of Infoserve HK has 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 stated in the Letter, Infoserve Singapore is mainly engaged in the provision of communications services, Internet access and related services in Singapore. Since the beginning of year 2003, Infoserve Singapore has adopted a revenue sharing basis in order to streamline the operations and reduce operating costs. The Group has appointed the Manager to manage its operations in Singapore and the Manager is responsible for marketing the products of Infoserve Singapore and provide services to the clients of Infoserve Singapore using (i) the Telecom Licence; (ii) brandname and trademark; and (iii) the network infrastructure and hardware capability of Infoserve Singapore. The remuneration to the Manager is determined by reference to the performance of the operations of Infoserve Singapore. Since adoption of the above arrangement, the revenue of Infoserve Singapore increased to approximately US$1.8 million (equivalent to approximately HK$14.0 million) for the year of 2003 and the number of customers has also been increased to 850 customers by the end of 2003.

Through the expertise of Infoserve Japan in systems integration and network management capabilities, the Group has developed a business relationship with FLAP in Japan. FLAP is a Japanese mobile communications operator. The Group has built and operated an integrated platform for the provision of facsimile, voice, video conference and Internet access services to FLAP's PDA users in Japan.

The Company has been looking for additional funding to alleviate the cashflow and liquidity problems of the Group. As stated in the Company's circular dated 11th December, 2003, the Group had been operating under tight cashflow position, and the withdrawal of the financial support by Mr. Chang, an executive Director, on 6th November, 2003 has adversely impacted on the operating and financial position of the Group. In particular, the Company has been conducting negotiations with potential subscribers or investors with a view to regenerating the business operations of the Group with new cash injected into the Company by way of a subscription of new Shares.

In view of the Group's current business situation, we concur with the view of the Directors that it is imperative for the Group to restructure its non-performing subsidiaries and businesses and to focus its resources on developing promising and viable subsidiaries of the Group, such as Infoserve Singapore and Infoserve Japan. Taking into account non-profitable businesses of the Group, the shrinkage of the Group's operations and the financial conditions of the Group as stated below, the Directors consider that a substantial injection of funds is required as working capital for the operations of the Group.

2. *Financial position of the Group*

(a) *Turnover and net loss attributable to shareholders*

As shown in Appendix I to the Circular, the Group recorded an annual turnover of approximately US$24.3 million (equivalent to approximately HK$189.5 million) and US$17.0 million (equivalent to approximately HK$132.6 million) for the two years ended 31st December, 2003 respectively. As stated in the Company's annual report (the "Annual Report") for the year ended 31st December, 2003, such decrease in turnover was largely a result of the disposal of ISR business in Taiwan in September 2003, the suspension of business operations in Taiwan and increased competition in the businesses of the Group which led to falling prices and lower sales.

The Group recorded a net loss of approximately US$8.6 million (equivalent to approximately HK$67.1 million) and approximately US$1.5 million (equivalent to approximately HK$11.7 million) for the two years ended 31st December, 2003 respectively, representing a loss per Share of US$0.0159 and US$0.0025 for the respective financial years. This improvement was mainly attributable to the gains of approximately US$14.5 million (equivalent to approximately HK$113.1 million) arising from the de-consolidation of Infoserve Taiwan, Infoserve US, Infoserve PRC and Infoserve HK. As a result of the operational difficulties, the Company ceased to exercise control over the financial and operational affairs of Infoserve Taiwan, Infoserve US, Infoserve PRC and Infoserve HK. As no financial records and other information of the above four subsidiaries since 1st October, 2003 were made available to the Company, the Company could not include results of the above four subsidiaries since 1st October, 2003. Accordingly, the financial results of Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK since 1st October, 2003 have not been included in the Company's income statements for the year ended 31st December, 2003 and their accounts have been de-consolidated from the Group's accounts since 1st October, 2003.

According to the first quarterly results announcement of the Company, the turnover of the Remaining Group for the three months ended 31st March, 2004 amounted to approximately US$687,000 (equivalent to approximately HK$5.4 million), representing a decrease of approximately 88.1% to the turnover of approximately US$5.8 million (equivalent to approximately HK$45.2 million) of the corresponding period in 2003. Nevertheless, the net loss attributable to Shareholders for the same period has narrowed by approximately 86.6% to approximately US$239,000 (equivalent to approximately HK$1.9 million) from approximately US$1.8 million (equivalent to approximately HK$14.0 million) for the corresponding period in 2003.

(b) Indebtedness and debt ratio

As shown in Appendix I to the Circular, the Group had total liabilities of approximately US$24.4 million (equivalent to approximately HK$190.3 million) as at 31st December, 2002 and US$3.2 million (equivalent to approximately HK$25.0 million) as at 31st December, 2003. The decrease in total liabilities was due to the de-consolidation of Infoserve Taiwan, Infoserve US, Infoserve PRC and Infoserve HK. The US$3.2 million liabilities comprised trade and other payables, short-term loans, finance lease obligations, convertible notes to a substantial shareholder, advances from directors and amount due to related companies. The Directors have advised that such loans bear a current annual interest rate ranging from approximately 5% to 24%. The Group's debt ratios (total liabilities over total assets) as at 31st December, 2002 and 31st December, 2003 were approximately 106.9% and 565.5% respectively.

(c) Net liability value

As shown in Appendix I to the Circular, due to the loss incurred during the past three years, the Group has recorded net liabilities of approximately US$1.6 million (equivalent to approximately HK$12.5 million) and US$2.6 million (equivalent to approximately HK$20.3 million) as at 31st December, 2002 and 31st December, 2003 respectively. Such net liabilities as at 31st December, 2003 amounted to approximately US$0.0045 per Share (equivalent to approximately HK$0.035 per Share).

(d) Working capital

As shown in Appendix I to the Circular, the Group recorded net current liabilities of approximately US$7.3 million (equivalent to approximately HK$56.9 million) and US$2.6 million (equivalent to approximately HK$20.3 million) as at 31st December, 2002 and 31st December, 2003 respectively. As at 31st December, 2003, the Group recorded cash and bank balances of approximately US$45,000 (equivalent to approximately HK$351,000) and the Directors consider that the Group is in need of cash for working capital.

We concur with the Directors' view that due to the poor financial performance of the Group for the past few years and current financial condition of the Group, it is difficult for the Group to raise funding through alternative means and that the Subscription is an appropriate method to provide the Group with funding for the reduction of its debts and as working capital to finance the operations of the Group's businesses.

3. *Terms of the Subscription Agreement, the Loan Capitalisation Agreement and the Second Subscription Agreement*

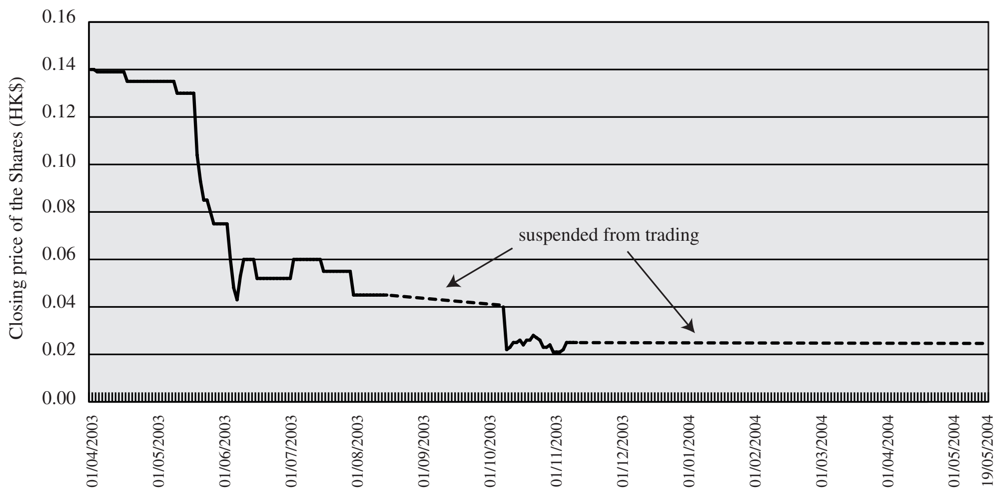
The Subscription Agreement is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive, the approval of the transactions contemplated under the Subscription Agreement and the Whitewash Waiver by the Independent Shareholders; execution of the Disposal Agreements having been approved by the Shareholders; and the lifting of the suspension in, and the resumption of, trading in the Shares on GEM.

Completion of the Loan Capitalisation shall be conditional upon, among other things, all necessary approvals by the Shareholders for the Loan Capitalisation being obtained; the Stock Exchange granting approval for listing and permission to deal in the Capitalisation Shares to be issued pursuant to the Loan Capitalisation; and the lifting of the suspension in, and the resumption of, trading in the Shares on GEM.

Completion of the Second Subscription Agreement shall be conditional upon, among other things, the approval by the Shareholders for the Second Subscription being obtained; the Stock Exchange granting approval for listing and permission to deal in the Second Subscription Shares to be issued pursuant to the Second Subscription; and the lifting of the suspension in, and the resumption of, trading in the Shares on GEM.

(a) Comparison between the Subscription Price, the subscription prices of the Capitalisation Shares and the Second Subscription Shares and the market price per Share

The following chart sets out the daily historical closing price of the Shares traded on the Stock Exchange starting from April 2003, one year prior to the release of the Announcement, and up to and including the Latest Practicable Date (the "Review Period").



As shown in the above chart, the market price of the Shares decreased since April 2003 from HK$0.14 as at 1st April 2003, and thereafter dropped gradually to HK$0.021 on 23rd October, 2003. The closing price of the Shares on the last trading day prior to the release of the Announcement was HK$0.025. Accordingly, the Shares were generally on a downward trend over the Review Period.

The closing price of the Shares of HK$0.025, as quoted on 3rd November, 2003, being the last trading day prior to the release of the Announcement, represented a decrease of approximately 82.1% from the highest closing price of HK$0.14 in the Review Period.

As stated in the Letter, the Subscription Price and the subscription prices of the Capitalisation Shares and the Second Subscription Shares, which are equivalent to the par value of the Shares, were negotiated between the parties on an arm's length basis and the subscription prices of HK$0.01 per Capitalisation Share and Second Subscription Share are the same as and are fixed with reference to the Subscription Price and represents:

(i) a discount of approximately 60% to the closing price of HK$0.025 per Share as quoted on the Stock Exchange on 3rd November, 2003, being the Last Full Trading Day;

(ii) a discount of approximately 56.5% to the average closing price of approximately HK$0.023 per Share over the 10 trading days up to and including the Last Full Trading Day; and

(iii) a discount of approximately 66.6% to the average closing price of approximately HK$0.030 per Share over the 30 trading days up to and including the Last Full Trading Day.

As elaborated in the paragraph headed "Analysis of trading volume" below, the trading volume of the Shares under the Review Period remained thin which will increase the difficulty for Shareholders to buy or sell their shares, which in turn increase the liquidity risk of holding the Shares by them. In view of the current financial condition of the Group, such a significant discount of the Subscription Price and the subscription prices of the Capitalisation Shares and the Second Subscription Shares to the closing Share prices is, in our view, fair and reasonable.

(b) Price-earnings ratio ("PER")

Due to the fact that the Group has reported net losses attributable to Shareholders for the year ended 31st December, 2003, the latest audited financial year, no PER could be calculated. In this regard, we are unable to conduct analysis on the comparison of the Group's PER with those of other similar Hong Kong listed companies based on the Subscription Price and the subscription prices of the Capitalisation Shares and the Second Subscription Shares.

(c) Analysis of trading volume

The following table sets out the total number of Shares traded per month, and the respective percentage of monthly trading volume compared with the issued share capital and the free float respectively for the period commencing from April 2003 (being the trading month six months preceding 3rd November, 2003, the last trading day prior to the Announcement) up to and including the Latest Practicable Date:

Month	Number of Shares traded per month *(Shares)*	Shares traded during the month/period as a percentage of the issued share capital of the Company *(note 1)* *(%)*	Shares traded during the month/period as a percentage of Shares held by the public *(note 2)* *(%)*
April 2003	115,000	0.020	0.051
May 2003	555,000	0.096	0.244
June 2003	1,045,000	0.182	0.459
July 2003	300,000	0.052	0.132
August 2003 *(Note 3)*	0	0	0
September 2003 *(Note 3)*	–	–	–
October 2003	37,344,776	6.490	16.400
November 2003 *(Note 3)*	0	0	0
December 2003 *(Note 3)*	–	–	–
January 2004 *(Note 3)*	–	–	–
February 2004 *(Note 3)*	–	–	–
March 2004 *(Note 3)*	–	–	–
April 2004 *(Note 3)*	–	–	–
May 2004 (up to Latest Practicable Date) *(Note 3)*	–	–	–

Notes:

1. Based on a total of 575,382,456 issued Shares as at the Latest Practicable Date.

2. Based on 227,715,152 Shares in public hands as at the Latest Practicable Date.

3. The Shares were suspended from trading during the period from 13th August, 2003 to 30th September 2003 and from 3rd November, 2003 to the Latest Practicable Date.

It is noted from the above table that the Shares were thinly traded on the Stock Exchange for the past one year except October 2003 representing approximately 6.5% of the issued share capital of the Company or approximately 16.4% of the Shares held by the public. The Directors were not aware of any reasons for such increase. Besides October 2003, the trading volume of the Share is within the range of 0% to 0.18% of the issued share capital of the Company or of 0% to 0.46% of the Shares held by the public during the months from April 2003 to November 2003.

(d) Comparison between the Subscription Price and the subscription prices of the Capitalisation Shares and the Second Subscription Shares to the net liabilities per Share

As stated in the Annual Report, the Company reported net liabilities instead of net assets, any subscription price paid by the subscribers represented premiums to the net liabilities per Share.

(e) Conclusion

Although the Subscription Price and the subscription prices of the Capitalisation Shares and the Second Subscription Shares represents a significant discount to the prevailing market price of the Shares, the Subscription Price and the subscription prices of the Capitalisation Shares and the Second Subscription Shares represents a premium to the net liabilities per Share as at 31st December, 2003. Based on the financial condition of the Group, we are of the view that the discount of the Subscription Price and the subscription prices of the Capitalisation Shares and the Second Subscription Shares to the prevailing market price of the Shares is fair and reasonable.

4. Effects of the Subscription, the Loan Capitalisation and the Second Subscription

(a) Indebtedness and debt ratio

As stated in the Letter, net proceeds from the Subscription are approximately HK$19 million and the Directors intend to apply approximately HK$15.5 million of the net proceeds to repay part of the indebtedness and approximately HK$3.5 million of the net proceeds as general working capital of the Remaining Group. After signing of the Subscription Agreement, the Company has approached its creditors to negotiate a debt restructuring with a view to further improving the financial position of the Remaining Group. The Loan Capitalisation will enable the Remaining Group to conserve cash by settling part of the Loan by the issue of the Capitalisation Shares. The Second Subscription will bring funding to pay off the remaining balance of the Loan. Both the Loan Capitalisation and the Second Subscription serve to enhance the Company's equity base and the Loan Capitalisation would also enable the Remaining Group to conserve cash. On this basis, the Directors are of the view that the Loan Capitalisation and the Second Subscription are in the interest of the Shareholders and the Company as a whole.

The Company plans to apply approximately HK$15.5 million of the net proceeds from the Subscription to repay the Group's outstanding borrowings. According to the Directors, as at 31st March, 2004, the total outstanding debts of the Remaining Group increased to approximately US$2.5 million (equivalent to approximately HK$19.8 million), and, subsequent to that date, during April and May 2004, Mr. Yu has advanced an aggregate of HK$1.1 million to the Company. The interest rate of the advance by Mr. Yu is 5% per annum. The Directors have advised that, after the Subscription, the

Loan Capitalisation, the Second Subscription, and the repayment of all the borrowings of the Remaining Group, except for the amount due to Mr. Yu, the pro forma total liabilities and the pro forma total assets of the Remaining Group will be approximately US$0.99 million (equivalent to approximately HK$7.7 million) and approximately US$1.18 million (equivalent to approximately HK$9.2 million) respectively. The debt ratio of the Group will decrease to 83.9%.

(b) Net asset value

As shown in Appendix I, after taking into consideration of, among other things, the Subscription, the Loan Capitalisation and the Second Subscription, the Group will return to a positive net asset position and the net asset value of the Group will be approximately US$0.108 million (equivalent to approximately HK$0.84 million).

(c) Earnings

Net proceeds from the Subscription amount to approximately HK$19 million. According to the Directors, the Company plans to apply approximately HK$15.5 million of the net proceeds from the Subscription to repay the Group's outstanding borrowings and, together with the Loan Capitalisation and the Second Subscription, will save total interest expenses of approximately HK$1.7 million per annum.

(d) Working capital and cash balances

Based on the Annual Report, the net current liabilities of the Group as at 31st December, 2003 amounted to approximately US$2.6 million (equivalent to approximately HK$20.3 million). Upon completion of the Subscription, the Loan Capitalisation and the Second Subscription, the Group will return to a positive net current assets position and the net current assets of the Group will increase to approximately US$0.23 million (equivalent to approximately HK$1.8 million). Furthermore, based on the Annual Report, the bank balances and cash of the Group as at 31st December, 2003 amounted to approximately US$45,000 (equivalent to approximately HK$351,000). Upon completion of the Subscription, the Loan Capitalisation and the Second Subscription, approximately HK$3.5 million from the net proceeds will be utilised as working capital and the working capital position of the Remaining Group will be strengthened.

(e) Dilution of Shareholders' interests in the Company

The effects of the Subscription, the Loan Capitalisation and the Second Subscription on the shareholding structure of the Company are set out in the Letter. Immediately upon completion of the Subscription, the Loan Capitalisation and the Second Subscription, Shareholders' interest in the Company will be diluted by approximately 80.7%.

(f) Conclusion

Based on the above, the Subscription, the Loan Capitalisation and the Second Subscription, will substantially improve the overall financial position of the Remaining Group. Taking into the account the benefits to be brought about by the Subscription, the Loan Capitalisation and the Second Subscription, we are of the opinion that the Subscription, the Loan Capitalisation and the Second Subscription are in the interest of the Company and the Shareholders as a whole.

5. Advice on the terms of the Subscription Agreement, the Loan Capitalisation Agreement and the Second Subscription Agreement

In formulating our opinion on the fairness and reasonableness of the Subscription, the Loan Capitalisation and the Second Subscription and their terms, we have taken into account the following factors:

(a) In light of the fact that the Group has been facing continued financial and operational difficulties as reflected by its net losses, net liabilities and increasing debt ratio as mentioned above, the Subscription, the Loan Capitalisation and the Second Subscription provide the Company funds to reduce all of its borrowings, except the advance by Mr. Yu, and as working capital.

(b) The Group will return to a positive net asset position and the net asset value of the Group will be approximately US$0.108 million (equivalent to approximately HK$0.84 million) after the Subscription, the Loan Capitalisation and the Second Subscription.

(c) After completion of the Subscription, the Loan Capitalisation and the Second Subscription, the Group will save total interest expenses of approximately HK$1.7 million per annum.

(d) The Subscription Price and the subscription prices of the Capitalisation Shares and the Second Subscription Shares were agreed between the parties after arm's length negotiations.

(e) We are of the view that the dilution effect of the Subscription, the Loan Capitalisation and the Second Subscription on the Shareholders' interests in the Company is acceptable on the basis that the Subscription, the Loan Capitalisation and the Second Subscription will significantly improve the financial position of the Group through additional injection of a substantial amount of cash and capitalisation of loan as discussed above.

Taking into account the above factors, we are of the opinion that the Subscription, the Loan Capitalisation and the Second Subscription are in the interest of the Company and the terms of the Subscription Agreement, the Loan Capitalisation and the Second Subscription are fair and reasonable so far as the Independent Shareholders are concerned.

B. The Whitewash Waiver and the effect of approval for granting the Whitewash Waiver

As indicated in the Letter, immediately upon completion of the Subscription, the Loan Capitalisation and the Second Subscription, the Subscriber and parties acting in concert with it will own approximately 66.97% of the issued share capital of the Company as enlarged by the Subscription Shares, the Capitalisation Shares and the Second Subscription Shares. Under Rule 26 of the Takeovers Code, the Subscriber and parties acting in concert with it will then be obliged to make a mandatory general offer for all the issued Shares other than those already owned by the Subscriber and parties acting in concert with it. The Subscription Agreement is conditional upon, among other things, the granting of the Whitewash Waiver by the Executive. The Subscriber has made an application pursuant to Note 1 of the Notes on Dispensations from Rule 26 of the Takeovers Code to the Executive for such Whitewash Waiver, which if granted, will be subject to approval by the Independent Shareholders on a vote taken by way of poll at the extraordinary general meeting of the Company. In the event that the Whitewash Waiver is not approved by the Independent Shareholders, the Subscription Agreement will lapse and the Subscription will not proceed.

If the Whitewash Waiver is approved by the Independent Shareholders, due to the reason that the Subscriber will hold more than 50% of the voting rights of the Company after completion of the Subscription, the Loan Capitalisation and the Second Subscription, the Subscriber will be able to increase its shareholding in the Company without incurring any further obligation under Rule 26.1 of the Takeovers Code to make a mandatory general offer for the Shares of the Company not already owned by it or parties acting in concert with it.

In arriving at our opinion with respect to the Whitewash Waiver, we have taken into account the following principal factors:

1. Background of the Subscriber

The Subscriber is an investment holding company incorporated in the British Virgin Islands with limited liability. The Subscriber is owned as to 30.62% by Worldtime, 65.00% by Hopewell and 4.38% by Concord Pacific. Worldtime is owned as to 99.00% by Dr. Li and 1.00% by Mr. Chang Jiaxing. Hopewell is owned as to 75.00% by Mr. Gui and 25.00% by Dr. Li. Concord Pacific is owned as to 80.00% by Mr. Tang Xueyi and 20.00% by Ms. Cheung Kwan. Mr. Gui, aged 49, graduated from Jianxi Technical College (presently known as Nanchong University) in 1980. Mr. Gui has substantial management experience in various industries including information technology, automobile and digital technology. He is presently the managing director of a private investment holding company in the PRC. Dr. Li, aged 31, graduated from Zhejing University with a bachelor degree and, a doctor degree in optical engineering in 1994 and 2000 respectively. Dr. Li has several years of experience in research and development in the field of optical and digital technology in Japan and the PRC. She is presently the managing director of a private digital technology company in the PRC. The Directors consider that both Mr. Gui and Dr. Li, has management and investment experiences in information technology, which may be beneficial to the future development of the Group.

2. Subscription Price

The Subscription Price is HK$0.01 which is the par value of the Shares and was arrived at after arms' length negotiation between the relevant parties.

3. Material improvement in the financial position of the Group

The total investment of HK$20 million from the Subscriber, together with the completion of the debt restructuring of the Group, will significantly improve the Group's current financial position. The Subscription, upon completion, will (i) save total interest expenses of approximately HK$1.7 million per annum; (ii) reduce the Group's net liabilities to approximately US$0.2 million (equivalent to approximately HK$1.4 million) based on the Annual Report; and (iii) provide the Group with approximately HK$3.5 million as working capital.

4. Our advice with respect to the granting of the Whitewash Waiver

Given the above, we concur with the Directors' view that the cash investment from the Subscriber of HK$20 million provides the Group with immediate funding to strengthen the Group's financial position, to lessen its interest burden and to enhance its working capital position.

Taking into account of the benefits to the Company, we are of the view that the Subscription is beneficial to the Independent Shareholders. In light of the aforesaid, we are of the opinion that granting of the Whitewash Waiver is fair and reasonable and is in the interest of the Independent Shareholders despite the fact that no mandatory general offer as required by the Takeovers Code will be made by the Subscriber after it has taken control of the Company.

C. Disposal Agreements

On 18th March, 2004, the Company and Mr. Choi entered into three sets of separate agreements being the Taiwan Operations Disposal Agreement, the PRC Operations Disposal Agreement and the US Operations Disposal Agreement pursuant to which the Company agreed to sell and Mr. Choi agreed to acquire from the Company its entire equity interest in each of Infoserve Taiwan, Infoserve PRC and Infoserve US at a consideration of HK$1.00, HK$1.00 and US$1.00 respectively. The considerations for the Disposal were arrived at after arm's length negotiation between the Company and Mr. Choi. Pursuant to the terms of the Disposal Agreements, the inter-company balances between Infoserve Taiwan, Infoserve PRC and Infoserve US and members of the Remaining Group and Infoserve HK would be waived, save as any payables due to Infoserve HK will not be waived as Infoserve HK is in liquidation and the Company is no longer able to procure such a waiver.

1. *Business of Infoserve Taiwan, Infoserve PRC and Infoserve US*

Infoserve Taiwan and Infoserve US were previously engaged in the provision of communication services, Internet access and related services, VPN and other solution services in Taiwan and United States respectively. Infoserve Taiwan ceased trading in November 2003, and Infoserve US has been dormant since the beginning of 2003. Infoserve PRC was previously a sales and representative office providing technical support and consultancy services to the Group's ISP partners in the PRC. Infoserve PRC ceased operations in November 2003. Please refer to the Letter for the information of Infoserve Taiwan, Infoserve PRC and Infoserve US. The following is a summary of the net losses of the Group for the three years ended 31st December, 2003 and its net deficit position as at 31st December, 2003 and the net losses of Infoserve Taiwan, Infoserve PRC and Infoserve US for the two years ended 31st December, 2002 and the period ended 1st October, 2003 and their net deficit position as at 1st October, 2003 as stated in the Letter:

	Net loss for the year ended 31st December,			Net deficit as at 31st December,
	2001	**2002**	**2003**	**2003**
	(in thousands)	*(in thousands)*	*(in thousands)*	*(in thousands)*
The Group *(Note 1)*	US$27,526 (equivalent to approximately HK$214,703)	US$8,631 (equivalent to approximately HK$67,322)	US$1,459 (equivalent to approximately HK$11,380)	US$2,616 (equivalent to approximately HK$20,405)

	Net loss for the year/period ended			Net deficit as at
	31st December, 2001	**31st December, 2002**	**1st October, 2003**	**1st October, 2003**
	(in thousands)	*(in thousands)*	*(in thousands)*	*(in thousands)*
Infoserve Taiwan *(Note 2 & 5)*	NT$625,967 (equivalent to approximately HK$146,152)	NT$73,462 (equivalent to approximately HK$17,152)	NT$378,287 (equivalent to approximately HK$88,323)	NT$163,650 (equivalent to approximately HK$38,209)
Infoserve PRC *(Note 3 & 5)*	RMB2,142 (equivalent to approximately HK$2,021)	RMB3,134 (equivalent to approximately HK$2,957)	RMB1,774 (equivalent to approximately HK$1,674)	RMB1,708 (equivalent to approximately HK$1,611)
Infoserve US *(Note 4 & 5)*	US$3,711 (equivalent to approximately HK$28,946)	US$1,922 (equivalent to approximately HK$14,992)	US$178 (equivalent to approximately HK$1,388)	US$3,217 (equivalent to approximately HK$ 25,093)

Notes:

(1) Figures for the three years ended 31st December, 2003 are based on the audited reports of the Company. The results of the Group for the year ended 31st December, 2003 have included result from Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK for the period from 1st January, 2003 to 1st October, 2003. As regards the Group's net deficit as at 31st December, 2003, the figure does not include assets and liabilities of Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK which have been de-consolidated from the Group's accounts since 1st October, 2003.

(2) Figures for the two years ended 31st December, 2002 are based on the audited accounts of Infoserve Taiwan for the year ended 31st December, 2002 prepared by its Taiwan auditors.

(3) Figures for the two years ended 31st December, 2002 are based on the audited accounts of Infoserve PRC for the two years ended 31st December, 2002 prepared by its PRC auditors.

(4) Figures for the two years ended 31st December, 2002 are based on the unaudited management accounts of Infoserve US prepared by the Company.

(5) As set out fully on pages 8 to 10 of the Company's annual report for the year ended 31st December, 2003, the Company ceased to exercise control over the financial and operational affairs of Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK since 1st October, 2003. As a result, the books and records of Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK were last updated to 1st October, 2003 only and since then these companies have been de-consolidated from the Group's accounts.

2. *Reason for and effect of the Disposal*

As mentioned in the Company's announcement dated 27th November, 2003, the business operations of Infoserve Taiwan has been suspended since 14th November, 2003 due to staff departure and disconnection of services by network service providers in Taiwan. According to the Directors, an injunction order was imposed on Infoserve Taiwan by a court in Taiwan on 24th September, 2004 which prevents the collection of certain trade receivables from its major customers. In view of the above, the Directors believe that the collection of such receivables would be a lengthy and difficult process and full recovery would be unlikely.

The suspension of the Group's operations in Taiwan also has negative impacts on Infoserve PRC whose principal activity was the provision of support services to customers of Infoserve Taiwan with operation in the PRC. Both Infoserve Taiwan and Infoserve PRC were operating at a loss for the two years ended 31st December, 2002 and the period ended 1st October, 2003. As regards Infoserve US, it has been dormant since the beginning of 2003.

In the past months, according to the Directors and as stated in the Letter, the Company has reviewed and considered various measures and it is decided that the Group should carry out a corporate restructuring which would enable the Group to divest loss-making operations and improve the financial condition. The disposal of the Group's operation in Taiwan, the PRC and US would enable the Group to extinguish the significant outstanding liabilities of Infoserve Taiwan, Infoserve PRC and Infoserve US. According to the Directors, the aggregate outstanding liabilities of Infoserve Taiwan, Infoserve PRC and Infoserve US with third parties as at 1st October, 2003 was approximately US$21.3 million (equivalent to approximately HK$166.1 million). On this basis, the Directors are of the view that the implementation of the group restructuring through the Disposals is in the interest of the

Shareholder as a whole. As stated in the Letter, the gain to the Group arising from the Disposals is approximately US$5.2 million (equivalent to approximately HK$40.6 million) which has been reflected in the gains from the de-consolidation as set out in the profit and loss accounts of the Company for the year ended 31st December, 2003. As stated in the subsection headed "Financial position of the Group" under the section headed "The Subscription Agreement, the Loan Capitalisation Agreement and the Second Subscription Agreement", Infoserve Taiwan, Infoserve PRC and Infoserve US have been de-consolidated from the Group accounts since 1st October, 2003. Besides, the Subscription is conditional upon the completion of the Disposals. Based on the current financial problems of the Group which is stated above, and the Directors' view that corporate restructuring would enable the Group to divest loss-making operations and facilitate the completion of the Subscription and, therefore, improve the financial condition of the Group, we concur with the view of the Directors that the group restructuring through the Disposals is in the interest of the Shareholder as a whole.

RECOMMENDATION

Having considered the principal factors and reasons set out in this letter, we are of the view that the Subscription Agreement, the Loan Capitalisation Agreement, the Second Subscription Agreement and the Disposal Agreements are in the interest of the Company as a whole and that the terms of the Subscription Agreement, the Loan Capitalisation Agreement, the Second Subscription Agreement and the Disposal Agreements are fair and reasonable so far as the Independent Shareholders are concerned. We are also of the opinion that the granting of the Whitewash Waiver is in the interest of the Company and is fair and reasonable so far as the Independent Shareholders are concerned, given that the Whitewash Waiver is a condition precedent for the Subscription. We, accordingly, advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the respective ordinary resolutions to be proposed at the EGM to approve each of the Subscription Agreement, the Loan Capitalisation Agreement, the Second Subscription Agreement, the Disposal Agreements and the Whitewash Waiver.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Arnold Ip	**Kevin Chan**
Executive Director	*Executive Director*

1. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and following the completion of the Subscription Agreement will be as follows:

		US$'000
Authorised:		
800,000,000	Shares as at the Latest Practicable Date	1,026
4,200,000,000	New Shares to be created	5,384
5,000,000,000		6,410
Issued and fully paid:		
575,382,456	Shares in issue as at the Latest Practicable Date	738
2,000,000,000	Issue of the Subscription Shares	2,564
140,000,000	Issue of the Second Subscription Shares	180
270,800,000	Issue of Capitalisation Shares *(Note 1)*	347
2,986,182,456	Shares in issue upon completion of the Loan Capitalisation, the Subscription and the Second Subscription	3,829

Note 1: The above number of Capitalisation Shares are calculated on the basis of interest accrued on the principal amount of the Loan up to and including 14th May, 2004 of approximately HK$108,000 and is presented for illustration purposes. The exact number of the Capitalisation Shares to be issued will depend on the amount of interest accrued up to and including the date of completion of the Loan Capitalisation.

All the Shares in issue rank pari passu in all respects including all rights as to dividends, voting and return of capital. The Subscription Shares, when issued, will rank pari passu in all respects with each other including rights to dividends, voting and return of capital. There have been no changes to the authorised and issued share capital of the Company since 31st December, 2003 (being the end of the last financial year of the Company) up to the Latest Practicable Date.

The Company currently has two share option schemes, being (i) the Pre-IPO Share Option Scheme and (ii) the Post-IPO Share Option Scheme. Pursuant to the Pre-IPO Share Option Scheme, the Company may grant options to any director or employee of the Company or its subsidiaries, and pursuant to the Post-IPO Share Option Scheme, the Company may grant options to any directors, employees, proposed employees, any supplier of goods or services, any customers, any person of entity that provides research, development, or other technological support or any shareholder of the Company or its subsidiaries or any investee.

As at the Latest Practicable Date, the Company has an aggregate of 2,280,000 outstanding Pre-IPO Share Options with an exercise price of HK$0.70 each and an aggregate of 3,000,000 outstanding Post-IPO Share Options with an exercise price of HK$1.212 each, of which 1,136,000 outstanding Pre-IPO Share Options and 1,500,000 outstanding Post-IPO Share Options were granted to a Director, the details of which are set out in the section headed "Disclosure of Interests" in Appendix II to this circular. The remaining 1,144,000 outstanding Pre-IPO Share Options and 1,500,000 outstanding Post-IPO Share Options were granted to a director of subsidiaries of the Company. The exercise in full of the subscription rights attaching to these share options would result in the issue of an aggregate of 5,280,000 Shares.

The Convertible Notes have expired on 12th April, 2004; however, as the Convertible Notes have not been repaid, the conversion rights continue to be exercisable. The exercise in full of the conversion rights of the Convertible Notes would result in a total of 39,000,000 new Shares, before taking into account any adjustments that may arise as a result of the Loan Capitalisation, the Subscription and the Second Subscription.

Moreover, there is also in issue the Warrants which remain outstanding as at the Latest Practicable Date, and the exercise of the Warrants in full would result in the issue of a total of 4,721,040 new Shares, before taking into account any adjustments that may arise as a result of the Loan Capitalisation, the Subscription and the Second Subscription.

Save as disclosed above, no share or loan capital of the Company has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

The Shares are listed on the Stock Exchange. No part of the securities of the Company is listed or dealt in, nor is listing or permission to deal in the securities of the Company being or proposed to be sought, on any other stock exchange.

2. SUMMARY OF CONSOLIDATED INCOME STATEMENT

The following is a summary of the audited consolidated income statement of the Group for each of the three years ended 31st December, 2003 and the unaudited consolidated income statement of the Remaining Group for the three months ended 31st March, 2004. The results of the Group for each of three years ended 31st December, 2003 are extracted from the relevant annual reports and the unaudited results of the Remaining Group for the three months ended 31st March, 2004 are extracted from the first quarterly report of the Company.

	31st March,		**31st December,**	
	2004	**2003**	**2002**	**2001**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Turnover	687	16,975	24,310	26,445
Other operating income	1	567	125	538
Network operation and telecommunication costs	(412)	(9,816)	(12,672)	(22,091)
Staff costs	(85)	(4,058)	(6,833)	(12,172)
Depreciation and amortisation of property, plant and equipment	(6)	(1,599)	(2,414)	(3,026)
Operating lease rentals in respect of machinery and equipment	–	(1,548)	(3,577)	(3,912)
Occupancy expenses	(2)	(857)	(2,709)	(3,406)
Prepaid network capacity written off	–	(2,207)	(1,531)	–
Provision for early termination of tenancies	–	(68)	(366)	(2,333)
Other operating expenses	(366)	(10,526)	(2,282)	(6,891)
Loss from operations	(183)	(13,137)	(7,949)	(26,848)
Finance costs	(56)	(661)	(681)	(665)
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	(239)	(1,459)	(8,630)	(27,513)
Taxation	–	–	(1)	(13)
Net loss attributable to shareholders	(239)	(1,459)	(8,631)	(27,526)
Loss per share – Basic	(0.04) cents	(0.25) cents	(1.59) cents	(5.83) cents

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

(a) Set out below is the auditors' report extracted from the annual report of the Company for the year ended 31st December, 2003:

"德勤・關黃陳方會計師行

Certified Public Accountants
26/F Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

TO THE SHAREHOLDERS OF INFOSERVE TECHNOLOGY CORP.
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 37 to 73 which have been prepared in accordance with International Financial Reporting Standards, other than as set out below.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body and for no other purposes. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

As explained in note 3(a) to the financial statements, 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

As explained in note 3(b) to the financial statements, 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. As disclosed in note 36 to the financial statements, 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.

DELOITTE TOUCHE TOHMATSU
Hong Kong, 26th March, 2004"

(b) Set out below is the reproduction of the unaudited first quarterly report of the Company for the three months ended 31st March, 2004.

"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 (save for Mr. Chang Hsiao Hui, Michael ("Mr. Chang") who cannot be contacted at his last known correspondence address) (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.

INFOSERVE®

INFOSERVE TECHNOLOGY CORP.

英普達資訊科技公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8077)

FIRST QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2004

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

* *for identification purpose only*

HIGHLIGHTS

- Turnover for the three months ended 31st March, 2004 amounted to US$687,000, represented a decrease of 88.1% over the turnover from corresponding period of US$5,770,000 in 2003.

- Net loss attributable to shareholders for the three months ended 31st March, 2004 narrowed by 86.6% to US$239,000 from US$1,784,000 for the corresponding period in 2003.

- Basic loss per share for the three months ended 31st March, 2004 was US0.04 cents, representing an approximately 87.1% decrease over the corresponding period of US0.31 cents in 2003.

- The Directors do not recommend the payment of an interim dividend for the three months ended 31st March, 2004.

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 three months ended 31st March, 2004 together with the unaudited comparative figures for the corresponding period in 2003, as follows:

	Notes	**2003** **1.1.2004 to** **31.3.2004** *US$'000* (Unaudited)	**2002** **1.1.2003 to** **31.3.2003** *US$'000* (Unaudited)
Turnover	3	687	5,770
Other operating income		1	79
Network operation and telecommunication costs		(412)	(3,479)
Staff costs		(85)	(1,541)
Depreciation and amortisation of property, plant and equipment		(6)	(552)
Operating lease rentals in respect of machinery and equipment		–	(632)
Occupancy expenses		(2)	(325)
Provision for early termination of tenancies		–	(68)
Other operating expenses		(366)	(862)
Loss from operations		(183)	(1,610)
Finance costs		(56)	(174)
Loss before taxation		(239)	(1,784)
Taxation	4	–	–
Net loss attributable to shareholders		(239)	(1,784)
Loss per share – Basic	5	(0.04) cents	(0.31) cents

Notes:

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

The condensed consolidated income statement and condensed consolidated statement of changes in equity and notes thereto (the "Quarterly Financial Information") have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

(A) In preparing the Quarterly Financial Information, the directors have given careful consideration to the future liquidity of the Group. Against this background, the Group has taken steps to implement a corporate restructuring as follows:

(1) Disposal of Infoserve Technology Corporation ("Infoserve Taiwan"), Infoserve Technology Beijing Limited ("Infoserve PRC") and Infoserve Telecom Corp. ("Infoserve US")

On 18th March, 2004, the Company and an independent purchaser entered into three sets of separate agreements pursuant to which the Company agreed to sell and the independent purchaser agreed to acquire from the Company its entire equity interest in each of Infoserve Taiwan, Infoserve PRC and Infoserve US ("Disposed Subsidiaries") at a consideration of HK$1.00, HK$1.00 and US$1.00 respectively. Pursuant to the terms of the Disposal Agreements, the inter-company balances between (i) the Disposed Subsidiaries, and (ii) the Remaining Group (namely the Company, Infoserve Technology Pte Ltd. ("Infoserve Singapore") and Infoserve Technology K.K. ("Infoserve Japan")) and Infoserve Technology Hong Kong Ltd. ("Infoserve HK") would be waived, save that any payables due to Infoserve HK will not be waived as Infoserve HK is in liquidation and the Company is no longer able to procure such a waiver. The disposal of the Group's operations in Taiwan, the PRC and US would enable the Group to extinguish the significant outstanding liabilities of Infoserve Taiwan, Infoserve PRC and Infoserve US.

(2) The Subscription

On 18th March, 2004, the Company and an independent investor, Tenway Limited, (the "Subscriber") entered into an agreement pursuant to which the Company agreed to allot and issue and the subscriber agreed to subscribe in cash for a total of 2,000 million new shares in the Company at a subscription price of HK$0.01 per Share (the "Subscription"). The net proceeds from the Subscription are estimated to be approximately US$2.4 million and the Directors intend to apply such net proceeds to repay indebtedness and as general working capital of the Remaining Group.

(3) Creditors in negotiations

The Company has reached an agreement with China Unicom International Ltd. ("China Unicom") to settle an amount of US$346,000 regarding the high court writ dated 19th August, 2003 served by China Unicom.

Besides, the Board is still in discussion with certain creditors for the settlement of the outstanding liabilities. Once the Group has reached any agreement, an announcement will be made accordingly.

The above restructuring proposal is conditional upon, inter alia, shareholders approval. Provided that the above restructuring exercise has been completed and certain undergoing restructuring proposals have been finalized and agreed with creditors and investors, the Directors consider that the Group will be able to meet in full its financial obligation as they fall due for the foreseeable future. Accordingly, the Quarterly Financial Information has been prepared on a going concern basis.

(B) In November 2003, having lost contact with the management and officers of Infoserve Taiwan, Infoserve Hong Kong which was put under liquidation, Infoserve PRC and Infoserve US, the Directors concluded that the Group had lost effective control over these former subsidiaries. These subsidiaries ceased operations by November 2003. 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. Since 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 results of these subsidiaries have been excluded from the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31st March, 2004.

2. ACCOUNTING POLICIES

The Quarterly Financial Information has been prepared under the historical cost convention. The accounting policies adopted in preparing the Quarterly Financial Information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2003. In applying such accounting policies in the preparation of the Quarterly Financial Information, greater use has been made of estimation methods than in the preparation of the annual financial statements.

3. TURNOVER

	1.1.2004 to 31.3.2004	**1.1.2003 to 31.3.2003**
	US$'000	*US$'000*
Turnover		
– communication services	57	2,430
– Internet access services	585	1,432
– virtual private network ("VPN") and solution services	45	1,908
	687	5,770

4. TAXATION

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

5. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss attributable to shareholders of US$239,000 (2003: US$1,784,000) and the number of 575,382,456 (2003: 575,382,456) shares in issue during the period.

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 exercise of the Company's outstanding warrants since their exercise would result in a decrease in loss per share from continuing ordinary operations.

6. CONDENSED 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, 2003	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	–	–	(11)	–	(11)
Net loss attributable to shareholders	–	–	–	(1,784)	(1,784)
At 31st March, 2003	738	53,367	(507)	(56,975)	(3,377)
At 1st January, 2004	738	53,367	(71)	(56,650)	(2,616)
Net loss attributable to shareholders	–	–	–	(239)	(239)
At 31st March, 2004	738	53,367	(71)	(56,889)	(2,855)

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 31st March, 2004 (2003: Nil).

FINANCIAL REVIEW

Comparing overall financial performance for the three months ended 31st March, 2004 to the same period last year, turnover of the Group amounted to US$687,000, decreased by 88.1% from US$5,770,000. Net loss narrowed markedly by 86.6% from US$1,784,000 to US$239,000. The improvement in operating results was mainly attributable to the closure of Taiwan operations and de-consolidation of Infoserve Hong Kong and the Disposed Subsidiaries as explained the Section "Basis of Presentation" and continual savings in operating expenses.

1. Turnover

Revenue from communication services has dropped by approximately 97.7% from US$2,430,000 in the first quarter of 2003 to US$57,000 in the first quarter of 2004. Revenue from Internet access and related services experienced a decrease of 59.1% from US$1,432,000 in the last corresponding period to US$585,000. For VPN and solution services, the Group has recorded a 97.6% decrease from US$1,908,000 to US$45,000. The significant decrease in turnover was due to the closure of Taiwan operations and the de-consolidation of the Disposed Subsidiaries and Infoserve Hong Kong as explained in the Section "Basis of Presentation".

2. Staff costs

For the three months ended 31st March, 2004, total staff costs amounted to US$85,000, which represented 94.5% decrease compared with US$1,541,000 in the last corresponding period. Staff number decreased from 235 as at 31st March, 2003 to 9 as at 31st March, 2004. The significant reduction in headcount was mainly due to the closure of Taiwan operations and de-consolidation of the Disposed Subsidiaries and Infoserve Hong Kong as explained in the Section "Basis of Presentation".

3. Occupancy expenses

For the three months ended 31st March, 2004, total occupancy expenses amounted to US$2,000, representing a decrease by 99.4% as compared to the corresponding period in 2003. The reduction in occupancy expenses was mainly due to the closure of Taiwan operations and the de-consolidation of the Disposed Subsidiaries and Infoserve Hong Kong as explained in the Section "Basis of Presentation".

4. Other operating expenses

Other operating expenses included principally the remuneration paid to the manager of the Singapore operation, legal and professional fees, license fees and other miscellaneous office expenses. The significant drop in the other operating expenses is mainly due to the closure of Taiwan operations and de-consolidation of the Disposal Subsidiaries and Infoserve Hong Kong as explained in the Section "Basis of Presentation".

BUSINESS REVIEW

In light of the Group's deteriorated operational and financial condition, the Board has considered various proposals to ease the situation.

In order to ease the financial difficulties of the Group, the Company has entered into the Subscription agreement on 18th March, 2004 with the Subscriber for the subscription in cash of 2,000,000,000 new shares in the Company at a subscription price of HK$0.01 each. It is proposed that the net proceeds from the placing, estimated to be approximately US$2.4 million, will be used to repay the Group's indebtedness and for general working capital purposes. An extraordinary general meeting of the Company will be convened shortly, to seek shareholder approval for the subscription.

In addition, the Board has been formulating proposals to rationalize the operations of the Group, by divesting the non-core and loss-making businesses and concentrating on the stronger, revenue-generating operations. On 18th March, 2004, the Company entered into three disposals agreements with an independent purchaser, for the disposal of the Disposed Subsidiaries, at nominal consideration in each case. In addition, all inter-company balances between (i) these subsidiaries and (ii) the Remaining Group and Infoserve Hong Kong would be waived. These disposals allow the Group to divest its non-performing businesses and concentrate on growing its stronger Singapore and Japan operations. Following the disposals, the operations of the Group will be smaller but stronger. An extraordinary general meeting of the Company will be convened shortly, to seek shareholder approval for the disposals.

Following completion of the subscription and the disposals, the fiscal condition of the Group will be significantly revitalised.

BUSINESS PROSPECTS

Following the Subscription and disposals as mentioned in Business Review, the Group is still actively in the process of the restructuring so as to further strengthen the financial situation.

The Board is in discussion with the Group's creditors for a restructuring of the Group's debts. Among the various creditors, the Company has reached an agreement with China Unicom International Ltd. ("China Unicom") regarding the high court writ dated 19th August, 2003 served by China Unicom. The claim is in respect of services charges alleged to be owing from Infoserve Hong Kong to China Unicom pursuant to four service agreements entered into by Infoserve Hong Kong with China Unicom, which obligations were guaranteed by the Company. It has been agreed that a total amount of US$346,000 should be paid by 2 instalments as a full and final settlement to the claim. The first instalment of US$38,000 has been paid and the remaining portion will be settled on or before 18th June, 2004.

The Board is still actively in discussion with certain creditors for the settlement of the outstanding liabilities. It is optimistic that the Group will reach agreements with the creditors in the near future.

With the completion of all of the above restructuring activities and certain undergoing restructuring proposals being finalized and agreed with the creditors, the fiscal condition of the Group will be significantly strengthened. The Board is of the view that the Group should focus on expanding its existing telecommunications solution offerings, in the Singapore and Japan market.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE COMPANY AND ASSOCIATED CORPORATIONS

As at 31st March, 2004, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which had been 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 were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transactions by the Directors were as follows:

(A) Long positions in the shares of the Company

Name of director	Capacity	Number of shares	Percentage to issued shares as at 31st March, 2004
Mr. Chang	Beneficial owner	99,628,984	17.32%
	Held by spouse *(Note 1)*	3,511,768	0.61%
Mr. Tsai Tun Chi	Beneficial owner	1,200,000	0.21%
		104,340,752	18.14%

Notes:

1. These shares are held by Ms. Lin Huei Lin, the spouse of Mr. Chang, an executive director of the Company.

(B) Long position in the shares of associated corporations

Infoserve Taiwan

	Number of Shares		
Name of director	Personal interest	Family interest	Total number of shares held
Mr. Chang	10	20 *(Note 1)*	30

Notes:

1. These shares are held by the parents of Mr. Chang.

2. Infoserve Taiwan has 92,000,000 shares in issue as at 31st March, 2004.

(C) Long positions in the underlying shares – share options

As at 31st March, 2004, 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 28th 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 to the Directors under the Pre-IPO Share Option Scheme are as follows:

Name of Director	Date of grant	Exercise period of share options	Exercise price per share	Capacity	Balance as at 1st January, 2004	Lapsed during the period	Balance as at 31st March, 2004	Percentage to issued shares as at 31st March, 2004
			HK$					
Mr. Chang	27th December, 2001	8th July, 2002 to 20th December, 2011	0.70	Beneficial owner	1,136,000	–	1,136,000	0.20%
	27th December, 2001	8th July, 2002 to 20th December, 2011	0.70	Held by spouse *(Note)*	473,000	473,000	–	–
					1,609,000	473,000	1,136,000	0.20%

Note: Ms. Lin Huei Lin, the spouse of Mr. Chang, was granted 473,000 options under Pre-IPO Share Option Scheme.

(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 Director	Date of grant	Exercise period of share options	Exercise price per share *HK$*	Capacity	Balance as at 1st January, 2004	Lapsed during the period	Balance as at 31st March. 2004	Percentage to issued shares as at 31st March, 2004
Mr. Chang	21st February, 2002	1st January, 2003 to 31st December, 2005	1.212	Beneficial owner	1,500,000	–	1,500,000	0.26%
	21st February, 2002	1st January, 2003 to 31st December, 2005	1.212	Held by spouse *(Note)*	80,000	80,000	–	–
					1,580,000	80,000	1,500,000	0.26%

Note: Ms. Lin Huei Lin, the spouse of Mr. Chang, was granted 80,000 options under Share Option Scheme.

Save as disclosed above, as at 31st March, 2004, none of the Directors (other than Mr. Chang who has not been contactable and in respect of whom such information had not been verified) 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) which were required to be notified to the Company and the Stock Exchange pursuant to 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 provision 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 were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transactions by the Directors.

SUBSTANTIAL SHAREHOLDER

As at 31st March, 2004, so far as is known to the Directors (other than Mr. Chang who has not been contactable) or chief executive of the Company, the persons (other than a Director or chief executive of the Company) who had interests and/or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital are as follows:

(A) Long positions in the shares

Name of Shareholders *(Note)*	Capacity/ Nature of interests	Number of Shares Long position	Number of Shares Short position	Approximate % to the existing issued share capital of the Company
Mr. Tsai Jenp Luh, Phil *(Note 1)*	Personal/ Family	99,523,688	–	17.30%
Ms. Tu Wen Yueh *(Note 1)*	Personal/ Family	99,523,688	–	17.30%
Ms. Lin Huei Lin *(Note 2)*	Personal/ Family	103,140,752	–	17.93%
KA Land Pte Ltd *(Note 3)*	Beneficial	143,802,864	–	24.99%
Singapore Telecommunications Limited *(Note 3)*	Interests of controlled corporation	143,802,864	–	24.99%
Tenway Limited	Beneficial interests	2,000,000,000	–	77.66%
Mr. Gui Song ("Mr. Gui") *(Note 4)*	Interests of controlled corporation	2,000,000,000	–	77.66%

Name of Shareholders *(Note)*	Capacity/ Nature of interests	Number of Shares Long position	Short position	Approximate % to the existing issued share capital of the Company
Dr. Li Fang Hong ("Dr. Li") *(Note 4)*	Interests of controlled corporation	2,000,000,000	–	77.66%
Hopewell Global Limited *(Note 4)*	Interests of controlled corporation	2,000,000,000	–	77.66%
Worldtime Limited *(Note 4)*	Interests of controlled corporation	2,000,000,000	–	77.66%

Note:

1. Ms. Tu Wen Yueh is the spouse of Mr. Tsai Jenp Luh, Phil. These Shares are held as to 99,305,288 Shares by Mr. Tsai Jenp Luh, Phil and the remaining 218,400 Shares by Ms. Tu Wen Yueh.

2. Ms. Lin Huei Lin is the spouse of Mr. Chang. These Shares are held as to 99,628,984 Shares by Mr. Chang and the remaining 3,511,768 Shares by Ms. Lin Huei Lin.

3. KA Land Pte Ltd., a wholly-owned subsidiary of Singapore Telecommunications Limited, held 143,802,864 Shares.

4. Worldtime Limited is interested in 30.62% of the issued share capital of the Subscriber and Dr. Li is in turn interested in 99% of the issued share capital of Worldtime Limited. Hopewell Global Limited is interested in 65% of the issued share capital of the Subscriber and Mr. Gui and Dr. Li are in turn interested in 75% and 25% respectively of the issued share capital of Hopewell Global Limited. Accordingly, Worldtime Limited, Hopewell Global Limited, Mr. Gui and Dr. Li are deemed to be interested in the Shares held by the Subscriber.

(B) Long positions in the underlying shares – convertible notes

KA Land Pte Ltd., a wholly-owned subsidiary of Singapore Telecommunications Limited also held convertible notes with an aggregate principal amount of HK$7,800,000 issued by the Company. Upon full conversion of these convertible notes, 39,000,000 shares of the Company, representing 6.78% of the issued shares of the Company at 31st March, 2004, will be issued.

(C) Long positions in the underlying shares – share options

Name	Date of grant	Vesting period	Exercise period	Exercise price per share *HK$*	Balance as at 1st January, 2004 and 31st March, 2004	Percentage to issued shares as at 31st March, 2004
Mr. Tsai Jenp Luh, Phil	27th December, 2001	8th July, 2002 to 1st January, 2004	8th July, 2002 to 20th December, 2011	0.70	1,144,000	0.20%
	21st February, 2002	1st January, 2003 to 1st January, 2005	1st January, 2003 to 31st December, 2005	1.212	1,500,000	0.26%
					2,644,000	0.46%

Save as disclosed above, the Directors (other than Mr. Chang who has not been contactable) and chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who as at 31st March, 2004 had interests and/or short position in the shares and underlying shares of the Company which would full to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

SPONSOR'S INTERESTS

Hantec Capital Limited ("Hantec") has been appointed as (i) the sponsor of the Company for the period from 16th January, 2004 to 31st December, 2004; and (ii) the financial advisor of the Company in relation to the resumption of trading in the shares of the Company in return for advisory fees. As updated and notified by Hantec, none of Hantec, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had 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 11 May 2004.

Save as disclosed above, Hantec had no other interest in the Company as at 11th May, 2004.

COMPETING INTERESTS

None of the Directors, management shareholders of the Company (as defined in the GEM Listing Rules) and their respective associates (as defined in the GEM Listing Rules) are interested in any business that competes with or is likely to compete with the business of the Group.

AUDIT COMMITTEE

The Company established an audit committee on 21st December, 2001 with terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. As at 11 May 2004, the audit committee comprises Mr. Ip Man Tin, David ("Mr. Ip") and Mr. Leung Hong Tai ("Mr. Leung"). Both Mr. Ip and Mr. Leung were appointed on 4 February 2004. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

The audit committee has reviewed with the management this unaudited first quarterly report for the three months ended 31st March, 2004 and is of the opinion that the financial statements contained in such report comply with the applicable accounting standards and legal requirements, and that adequate disclosures has been made.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the three months ended 31st March, 2004.

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

Hong Kong, 11th May, 2004"

(c) Set out below is the audited financial statements of the Group for the year ended 31st December, 2003 together with the accompanying notes as extracted from the Company's annual report for the year ended 31st December, 2003.

CONSOLIDATED INCOME STATEMENT

	Notes	2003 US$'000	2002 US$'000
Turnover	5	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	6	(13,137)	(7,949)
Finance costs	9	(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	10	–	(1)
Net loss attributable to shareholders		(1,459)	(8,631)
Loss per share – Basic	11	(0.25) cents	(1.59) cents

CONSOLIDATED BALANCE SHEET

	Notes	2003 US$'000	2002 US$'000
Non-current assets			
Property, plant and equipment	12	29	8,283
Prepaid network capacity	13	–	2,335
Interests in former subsidiaries	15	–	–
		29	10,618
Current assets			
Inventories		–	1,247
Trade and other receivables	16	488	7,938
Pledged bank deposits		–	2,989
Bank balances and cash		45	74
		533	12,248
Current liabilities			
Trade and other payables	18	1,205	8,375
Service subscription fees received in advance		–	1,196
Obligations under finance leases due within one year	19	1	3,079
Amounts due to related companies		241	–
Amounts due to directors		25	–
Convertible notes to a substantial shareholder	20	1,058	–
Current portion of long-term bank loans	21	–	522
Short-term bank loans	22	–	5,871
Other secured short-term loans		646	–
Bank overdrafts		–	500
		3,176	19,543
Net current liabilities		(2,643)	(7,295)
Total assets less current liabilities		(2,614)	3,323
Non-current liabilities			
Obligations under finance leases due after one year	19	2	686
Long-term bank loans	21	–	2,843
Loans from a substantial shareholder		–	1,000
Advances from directors		–	376
		2	4,905
Net liabilities		(2,616)	(1,582)
Capital and reserves			
Share capital	24	738	738
Reserves		(3,354)	(2,320)
Deficiency of shareholders' funds		(2,616)	(1,582)

BALANCE SHEET

	Notes	2003 US$'000	2002 US$'000
Non-current assets			
Property, plant and equipment	12	23	–
Interests in subsidiaries	14	135	6,975
Interests in former subsidiaries	15	–	–
		158	6,975
Current assets			
Trade and other receivables		2	7
Bank balances		2	3
		4	10
Current liabilities			
Accounts payables		660	505
Amounts due to subsidiaries		–	270
Amounts due to related companies		241	–
Amounts due to directors		25	–
Convertible notes to a substantial shareholder	20	1,058	–
Other secured short-term loans		646	–
		2,630	775
Net current liabilities		(2,626)	(765)
Total assets less current liabilities		(2,468)	6,210
Non-current liabilities			
Loans from a substantial shareholder		–	1,000
Advances from directors		–	262
		–	1,262
Net (liabilities) assets		(2,468)	4,948
Capital and reserves			
Share capital	24	738	738
Reserves	27	(3,206)	4,210
(Deficiency) balance of shareholders' funds		(2,468)	4,948

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)

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2003 US$'000	2002 US$'000
Operating activities			
Loss before taxation		(1,459)	(8,630)
Adjustments for:			
Interest income		(18)	(26)
Interest expenses		661	681
Amortisation of prepaid network capacity		128	293
Depreciation and amortisation of property, plant and equipment		1,599	2,414
Loss on disposal of property, plant and equipment		15	383
Prepaid network capacity written off		2,207	1,531
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	–
Allowance for bad and doubtful debts		1,845	455
Allowance for slow moving inventories		36	375
Operating cash flows before movements in working capital		(7,325)	(2,524)
Decrease (increase) in inventories		52	(859)
Increase in trade and other receivables		(557)	(1,945)
Increase in amounts due from former fellow subsidiaries		(6,237)	–
Increase (decrease) in trade and other payables		3,776	(1,787)
(Decrease) increase in service subscription fees received in advance		(1,196)	232
Cash used in operations		(11,487)	(6,883)
Income taxes paid		–	(1)
Net cash used in operating activities		(11,487)	(6,884)

	Notes	2003 US$'000	2002 US$'000
Investing activities			
Interest received		18	26
Purchase of property, plant and equipment		(429)	(225)
Proceeds from disposal of property, plant and equipment		–	87
Proceeds from disposal of certain businesses (net of cash and cash equivalents disposed of)	28	797	–
De-consolidation of former subsidiaries (net of cash and cash equivalents de-consolidated)	29	98	–
Decrease (increase) in pledged bank deposits		172	(2,119)
Net cash from (used in) investing activities		656	(2,231)
Financing activities			
Interest paid		(661)	(681)
Proceeds from issue of shares		–	7,528
Expenses incurred in connection with the issue of shares		–	(138)
Borrowings raised	30	18,453	5,866
Repayment of borrowings	30	(6,519)	(3,925)
Net cash from financing activities		11,273	8,650
Net increase (decrease) in cash and cash equivalents		442	(465)
Cash and cash equivalents at 1st January		(426)	294
Effect of foreign exchange rate changes		29	(255)
Cash and cash equivalents at 31st December		45	(426)
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		45	74
Bank overdrafts		–	(500)
		45	(426)

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL

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

The Company acts as an investment holding company while its subsidiaries are engaged in the provision of communication services, Internet access services, and virtual private network ("VPN") and solution services.

At the balance sheet date, the Group has an aggregate of 8 (2002: 255) employees situated in Hong Kong, Japan and Republic of Singapore.

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements are presented in United States dollars as the Group is operating in pan-regional basis.

3. 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. As disclosed in note 36, 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.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December, each year.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any identified impairment loss.

Turnover

Turnover represents the aggregate of the net amounts received and receivable from third parties in connection with the provision of communication services, Internet access services, and VPN and solution services.

Revenue recognition

Revenue from the provision of communication services, Internet access services and VPN and solution services are recognised when the services are provided.

Sales of cable modems and routers are recognised when they are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair values at the date of inception of the lease. Any outstanding principal portion of the leasing commitment is shown as an obligation of the Group. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, is charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the period of the respective leases.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and any identified impairment loss at the balance sheet date.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

The cost of leasehold improvements is depreciated using the straight line method over the period of the respective leases.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	10% to $33^1/_3$%
Motor vehicles	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group or over the period of the leases, if shorter.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial assets

The Group's principal financial assets are trade and other receivables.

Trade and other receivables are stated at their nominal value as reduced by allowances for estimated irrecoverable amounts.

Financial liabilities and equity

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Significant financial liabilities include trade and other payables, amounts due to related companies and other short-term loans. They are stated at their nominal value.

Convertible notes

Convertible notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity (capital reserves).

Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions in currencies other than United States Dollars are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in currencies other than United States Dollars are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on exchange are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value is recognised directly to equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

5. 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 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)

	2003	2002
	US$'000	*US$'000*
BALANCE SHEET		
Assets		
Segment assets		
– Communication services	55	6,190
– Internet access services	428	7,359
– VPN and solution services	51	6,271
Unallocated corporate assets	28	3,046
	562	22,866
Liabilities		
Segment liabilities		
– Communication services	53	3,654
– Internet access services	434	3,257
– VPN and solution services	51	2,155
Unallocated corporate liabilities	2,640	15,382
	3,178	24,448
OTHER INFORMATION		
Capital additions		
– Communication services	150	459
– Internet access services	107	1,979
– VPN and solution services	172	1,303
	429	3,741
Depreciation and amortisation		
– Communication services	647	960
– Internet access services	450	1,026
– VPN and solution services	630	721
	1,727	2,707
Prepaid network capacity written off		
– Communication services	827	–
– Internet access services	576	919
– VPN and solution services	804	612
	2,207	1,531

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 the 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

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2003	**2002**	**2003**	**2002**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Taiwan	–	21,490	400	3,723
Singapore	489	183	–	2
United States of America	–	691	–	13
Others	73	502	29	3
	562	22,866	429	3,741

6. LOSS FROM OPERATIONS

	2003	**2002**
	US$'000	*US$'000*
Loss from operations has been arrived at after charging:		
Directors' remuneration other than fees *(Note 7)*	198	200
Other staff's retirement benefits scheme contributions	146	230
Other staff costs	3,714	6,403
	4,058	6,833
Allowance for bad and doubtful debts	1,845	455
Allowance for slow moving inventories	36	375
Amortisation of prepaid network capacity	128	293
Auditors' remuneration	23	76
Cost of goods sold	4	408
Depreciation and amortisation of property, plant and equipment		
– owned by the Group	1,597	2,129
– held under finance leases	2	285
Loss on disposal of property, plant and equipment	15	383
Operating lease rentals in respect of		
– Internet connectivity leased lines	64	5,500
– land and buildings	793	2,709
– machinery and equipment	1,548	3,577
Research and development costs	–	909
and after crediting:		
Interest income	18	26
Property rental income before deduction of negligible outgoings	–	99

7. DIRECTORS' REMUNERATION

	2003	2002
	US$'000	*US$'000*
Fees for		
– executive directors	–	–
– independent non-executive directors	28	30
– other non-executive directors	–	–
	28	30
Other emoluments for non-executive directors	–	–
Other emoluments for executive directors		
– basic salaries and allowances	198	200
	198	200
Total directors' remuneration	226	230

For the year ended 31st December, 2003, basic salaries and allowances paid to the four current or former executive directors were US$16,000, US$10,000, US$86,000 and US$86,000 respectively.

For the year ended 31st December, 2002, basic salaries and allowances paid to the three executive directors were US$72,000, US$65,000 and US$63,000 respectively.

The directors' fees in 2003 for the two former independent non-executive directors were US$14,000 and US$14,000 respectively.

The directors' fees in 2002 for the three independent non-executive directors were US$15,000, US$7,000 and US$8,000 respectively.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an independent to join or upon joining the Group or as compensation for loss of office.

None of the directors has waived any emoluments during the year. Three executive directors had waived aggregate emoluments of US$183,000 in 2002.

8. EMPLOYEE' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included two (2002: three) executive directors of the Company, whose emoluments are included in note 7 above. The aggregate emoluments of the remaining three (2002: two) highest paid individuals are as follows:

	2003	2002
	US$'000	*US$'000*
Basic salaries and allowances	131	220
Bonus	–	6
Retirement benefits scheme contributions	5	1
	136	227

Their emoluments were within the following bands:

	Number of employees	
	2003	2002
Up to HK$1,000,000	3	1
HK$1,000,001 – HK$2,000,000	–	1
	3	2

9. FINANCE COSTS

	2003 US$'000	2002 US$'000
Interest on		
– bank and other borrowings wholly repayable within five years	(142)	(370)
– bank borrowings not wholly repayable within five years	(322)	(170)
– convertible notes	(58)	–
– finance leases	(139)	(141)
	(661)	(681)

10. 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.

11. 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.

12. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP					THE COMPANY
	Land and buildings *US$'000*	Furniture, fixtures and equipment *US$'000*	Leasehold improvements *US$'000*	Motor vehicles *US$'000*	Total *US$'000*	Leasehold improvements *US$'000*
COST						
At 1st January, 2003	3,790	11,323	950	72	16,135	–
Currency realignment	112	313	25	2	452	–
Additions	–	2	427	–	429	26
Disposals	–	(31)	(73)	–	(104)	–
De-consolidation of former subsidiaries	(3,902)	(11,548)	(1,303)	(74)	(16,827)	–
At 31st December, 2003	–	59	26	–	85	26
DEPRECIATION AND AMORTISATION AND IMPAIRMENT						
At 1st January, 2003	52	7,205	543	52	7,852	–
Currency realignment	2	200	13	2	217	–
Provided for the year	31	1,394	167	7	1,599	3
Eliminated on disposals	–	(14)	(47)	–	(61)	–
De-consolidation of former subsidiaries	(85)	(8,732)	(673)	(61)	(9,551)	–
At 31st December, 2003	–	53	3	–	56	3
NET BOOK VALUES						
At 31st December, 2003	–	6	23	–	29	23
At 31st December, 2002	3,738	4,118	407	20	8,283	–

At the balance sheet date, the net book value of property, plant and equipment held under finance leases was US$1,000 (2002: US$924,000).

13. PREPAID NETWORK CAPACITY

	US$'000
THE GROUP	
COST	
At 1st January, 2002	1,670
Additions	2,517
Amount written off	(1,670)
At 31st December, 2002	2,517
Amount written off	(2,517)
At 31st December, 2003	–
AMORTISATION	
At 1st January, 2002	28
Amortised for the year	293
Amount written off	(139)
At 31st December, 2002	182
Amortised for the year	128
Amount written off	(310)
At 31st December, 2003	–
CARRYING VALUE	
At 31st December, 2003	–
At 31st December, 2002	2,335

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	**2002**
	US$'000	US$'000
Unlisted shares, at cost	2,136	51,467
Less: Impairment in value	(2,069)	(45,214)
	67	6,253
Amounts due from subsidiaries	681	3,861
Less: Allowance for amounts due from subsidiaries	(613)	(3,139)
	68	722
	135	6,975

The directors consider that the carrying amount of interest in subsidiaries approximate to their fair value.

Details of the Company's subsidiaries, all of which are wholly-owned subsidiaries directly held by the Company, at 31st December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid share capital	Principal activity
Infoserve Technology K.K.	Japan	¥100,000,000	Provision of communication, Internet, VPN and solution services
Infoserve Technology Pte Ltd.	Republic of Singapore	S$1,720,000	Provision of communication, Internet, VPN and solution services

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

15. INTERESTS IN FORMER SUBSIDIARIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	US$'000	*US$'000*	*US$'000*	*US$'000*
Share of former subsidiaries' net assets	–	–	–	–
Unlisted shares, at cost	–	–	49,330	–
Less: Impairment in value	–	–	(49,330)	–
	–	–	–	–
Amounts due from former subsidiaries	2,928	–	2,896	–
Less: Allowance for amounts due from former subsidiaries	(2,928)	–	(2,896)	–
	–	–	–	–

The directors of the Company believe that the Group has no other material obligations or commitments in these former subsidiaries that require either adjustments to or disclosure in these financial statements.

16. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2003	2002
	US$'000	*US$'000*
Trade receivables	417	5,607
Other receivables	71	2,331
	488	7,938

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

	THE GROUP	
	2003	**2002**
	US$'000	*US$'000*
Age		
0 to 30 days	198	3,591
31 to 60 days	102	1,392
61 to 90 days	45	289
91 to 180 days	49	258
181 to 365 days	23	401
1 to 2 years	–	1,251
	417	7,182
Less: Allowance for bad and doubtful debts	–	(1,575)
	417	5,607

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

17. OTHER FINANCIAL ASSETS

Bank balances and cash

The amount comprises cash and short-term deposits held by the Group for treasury function. The carrying amount of these assets approximates to their fair value.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The amount presented in the balance sheet is net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because the counterparties are credit worthy institutions in Hong Kong, Singapore and Japan.

18. TRADE AND OTHER PAYABLES

	THE GROUP	
	2003	**2002**
	US$'000	*US$'000*
Trade payables to		
– a substantial shareholder	88	95
– others	123	5,027
	211	5,122
Other payables	994	3,253
	1,205	8,375

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

	THE GROUP	
	2003	**2002**
	US$'000	*US$'000*
Age		
0 to 30 days	122	3,074
31 to 60 days	37	475
61 to 90 days	34	342
91 to 180 days	11	484
181 to 365 days	7	747
	211	5,122

19. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP			
	Minimum lease payments		**Present value of minimum lease payments**	
	2003	**2002**	**2003**	**2002**
	US$'000	*US$'000*	*US$'000*	*US$'000*
Amount payable under finance leases:				
Within one year	1	3,161	1	3,079
Between one to two years	1	721	1	684
Between two to five years	2	3	1	2
	4	3,885	3	3,765
Less: Future finance charges	1	120	–	–
Present value of lease obligations	3	3,765	3	3,765
Less: Amount due within one year shown under current liabilities			1	3,079
Amount due after one year			2	686

20. CONVERTIBLE NOTES TO A SUBSTANTIAL SHAREHOLDER

	THE GROUP AND THE COMPANY	
	2003	**2002**
	US$'000	*US$'000*
Nominal value of convertible notes issued and liability component at date of issue	1,000	–
Interest charged	58	–
Liability component at 31st December, 2003	1,058	–

The convertible notes were issued in January 2003 to a substantial shareholder of the Company KA Land Pte Ltd.. These convertible notes carry interest at the rate of 6% per annum and is guaranteed by the Company's substantial shareholders Messrs. Tsai Jenp Luh, Phil and Chang Hsiao Hui, Michael. The noteholder of these convertible notes has the right at any time during the 15 months after the date of issuance of the convertible notes to convert into ordinary shares of the Company at a conversion price of HK$0.20 per share, subject to adjustments.

In compliance with the International Financial Reporting Standards, the convertible notes are presented as the liability component and equity component separately in the balance sheet. The liability component is the carrying amount of the financial liability by discounting the stream of future payments of interest and principal at the prevailing market rate. The equity component is an embedded option to convert the liability into equity. In the opinion of the directors, the convertible notes were issued at the prevailing market rate. The directors consider that the value of the equity component embedded in the convertible notes is insignificant.

The directors consider the carrying amount of convertible notes approximates their fair values.

21. BANK LOANS

	THE GROUP	
	2003	**2002**
	US$'000	*US$'000*
Bank loans		
– secured	–	2,777
– unsecured	–	588
	–	3,365
The bank loans are repayable as follows:		
Within one year	–	522
Between one to two years	–	402
Between two to five years	–	460
After five years	–	1,981
	–	3,365
Less: Amount due within one year shown under current liabilities	–	522
Amount due after one year	–	2,843

22. SHORT-TERM BANK LOANS

	THE GROUP	
	2003	**2002**
	US$'000	*US$'000*
Short-term bank loans		
– secured	–	2,158
– unsecured	–	3,713
	–	5,871

23. OTHER FINANCIAL LIABILITIES

The directors consider that the carrying amounts of trade and other payables, obligations under finance leases, amounts due to related companies, amounts due to directors and other short-term loans approximate to their fair values.

24. SHARE CAPITAL

	Number of ordinary shares	Amount
		US$'000
Authorised:		
Ordinary shares of HK$0.01 each		
– at 1st January, 2002, 31st December, 2002 and 31st December, 2003	800,000,000	1,026
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
– at 1st January, 2002	472,103,456	605
– issue of shares	103,200,000	133
– exercise of share options	79,000	–
– at 31st December, 2002 and 31st December, 2003	575,382,456	738

25. WARRANTS

At the balance sheet date, the Company had outstanding warrants, which were issued in September 2000 to its supplier Cisco Systems Capital Corporation, conferring rights, subject to adjustments, to subscribe for 4,721,040 ordinary shares of HK$0.01 each in the Company at HK$0.7887 per share expiring in September 2005. Exercise in full of these warrants would, under the share capital structure of the Company as of 31st December, 2003, result in the issue of 4,721,040 additional shares of HK$0.01 each. None of the warrants were exercised by the warrantholders during the year.

26. SHARE OPTIONS

(a) Pre-initial public offering ("IPO") share options

Pursuant to the pre-IPO share option scheme adopted by the Company on 10th September, 2001, the Company may grant options to any director or employee of the Company or its subsidiaries, for the primary purpose of providing incentives to them, to subscribe for shares in the Company with the payment of HK$10 per offer. Options granted are exercisable for a period not later than 10 years from the date of offer of the relevant options.

Details of the movements in the number of share options during the year under the Company's pre-IPO share option scheme which are exercisable from 8th July, 2002 to 20th December, 2011 are as follows:

		Number of share options					
Type of participants	Exercise price per share	Outstanding at 1.1.2002	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2002	Lapsed during the year	Outstanding at 31.12.2003
	HK$						
Directors	0.70	3,273,000	–	–	3,273,000	520,000	2,753,000
Employees	0.70	10,411,000	79,000	2,750,000	7,582,000	3,348,000	4,234,000
		13,684,000	79,000	2,750,000	10,855,000	3,868,000	6,987,000

(b) Share options

Pursuant to the share option scheme adopted by the Company on 21st December, 2001, the Company may grant options to any directors, employees, proposed employees, any supplier of goods or services, any customers, any person of entity that provides research, development or other technological support or any shareholder of the Company or its subsidiaries or any investee, for the primary purpose of providing incentives to them, to subscribe for shares in the Company with the payment of HK$10 per offer. The exercise price of the share option will be determined at the higher of the average of closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of offer of the options; the closing price of the shares on the Stock Exchange on the date of offer; and the nominal value of the shares. The share options are exercisable for a period not later than 10 years from the date of grant.

Details of the movements in the number of share options under the Company's share option scheme which are exercisable from 1st January, 2003 to 31st December, 2005 are as follows:

Type of participants	Exercise price per share HK$	Number of share options: Outstanding at 1.1.2002	Granted during the year	Lapsed during the year	Outstanding at 31.12.2002	Lapsed during the year	Outstanding at 31.12.2003
Directors	1.212	–	4,480,000	–	4,480,000	1,400,000	3,080,000
Employees	1.212	–	22,335,000	8,070,000	14,265,000	4,570,000	9,695,000
		–	26,815,000	8,070,000	18,745,000	5,970,000	12,775,000

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted during the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or cancelled prior to their exercise date are deleted from the register of outstanding options.

27. RESERVES

	Share premium US$'000	Deficit US$'000	Total US$'000
At 1st January, 2002	48,304	(46,837)	1,467
Premium arising on issue of shares	7,395	–	7,395
Expenses incurred in connection with the issue of shares	(2,332)	–	(2,332)
Net loss attributable to shareholders	–	(2,320)	(2,320)
At 31st December, 2002	53,367	(49,157)	4,210
Net loss attributable to shareholders	–	(7,416)	(7,416)
At 31st December, 2003	53,367	(56,573)	(3,206)

28. DISPOSAL OF CERTAIN BUSINESSES

In September 2003, the Company disposed of its International Simple Resale business in Taiwan.

	2003 US$'000	2002 US$'000
Net assets disposed of:		
Property, plant and equipment	28	–
Gain on disposal of certain businesses	769	–
Total net consideration	797	–
Satisfied by:		
Cash	797	–
Cash inflow arising on disposal:		
Cash received	797	–

29. DE-CONSOLIDATION OF FORMER SUBSIDIARIES

	2003 US$'000	2002 US$'000
Net liabilities de-consolidated:		
Property, plant and equipment	7,276	–
Inventories	1,159	–
Trade and other receivables	6,162	–
Amounts due from former fellow subsidiaries	3,309	–
Pledged bank deposits	2,817	–
Bank balances and cash	21	–
Trade and other payables	(10,946)	–
Obligations under finance leases	(3,114)	–
Amounts due to former fellow subsidiaries	(11,940)	–
Bank loans	(8,055)	–
Bank overdrafts	(119)	–
Advances from directors	(1,287)	–
Net liabilities	(14,717)	–
Translation reserve realised on de-consolidation	219	–
Gain on de-consolidation of former subsidiaries	(14,498)	–
	–	–
Net cash inflow arising on de-consolidation:		
Bank balances and cash de-consolidated	(21)	–
Bank overdrafts de-consolidated	119	–
	98	–

30. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Obligations under finance leases US$'000	Amounts due to related companies US$'000	Amounts due to directors US$'000	Amounts due to former fellow subsidiaries US$'000	Short-term bank loans US$'000	Other short-term loans US$'000	Long-term bank loans US$'000	Loans from a substantial shareholder US$'000	Advances from directors US$'000
At 1st January, 2002	1,516	–	544	–	3,024	–	3,801	–	–
Currency realignment	(3)	–	–	–	17	–	21	–	–
Inception of finance leases	3,516	–	–	–	–	–	–	–	–
Borrowings raised	–	–	–	–	3,463	–	288	1,000	1,115
Repayment of borrowings	(1,264)	–	(544)	–	(633)	–	(745)	–	(739)
At 31st December, 2002	3,765	–	–	–	5,871	–	3,365	1,000	376
Replacement of loan by convertible notes	–	–	–	–	–	–	–	(1,000)	–
Borrowings raised	–	241	25	11,940	–	646	4,690	–	911
Repayment of borrowings	(648)	–	–	–	(5,871)	–	–	–	–
De-consolidation of former subsidiaries	(3,114)	–	–	(11,940)	–	–	(8,055)	–	(1,287)
At 31st December, 2003	3	241	25	–	–	646	–	–	–

31. MAJOR NON-CASH TRANSACTIONS

In January 2003, loans from a substantial shareholder of the Company have been replaced by convertible notes as disclosed in note 20 to the financial statements.

In 2002, the Group entered into finance leases in respect of property, plant and equipment and prepaid network capacity with a total capital value at the inception of the leases of US$999,000 and US$2,517,000 respectively.

32. LITIGATIONS

The Company and its de-consolidated former subsidiary, Infoserve Technology Hong Kong Limited (“Infoserve Hong Kong”), were served a high court writ dated 19th August, 2003 by China Unicom International Ltd. (“China Unicom”). The claim is in respect of services charged alleged to be owing from Infoserve Hong Kong to China Unicom pursuant to four services agreements entered into by Infoserve Hong Kong with China Unicom, which obligations were guaranteed by the Company. The claim is in respect of US$456,000, together with interest and legal costs. An order judgment was obtained by China Unicom on 13th February, 2004 for an amount of US$415,000. The Company has filed an appeal against this judgment on 23rd February, 2004 and the appeal hearing is scheduled for 29th April, 2004. The directors of the Company believe that it has grounds to defend this claim. However, full provision of the claim together with interest and legal costs have been provided in the financial statements.

33. PLEDGE OF ASSETS

At 31st December, 2003, the Company has pledged its undertakings, property and assets under a first floating charge to a financial institution to secure the credit facilities granted to the Company.

34. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme (the “Hong Kong Scheme”) for all of its qualifying employees in Hong Kong. The assets of the Hong Kong Scheme are held separately from those of the Group in funds under control of trustee. The Group contributes 5% of the relevant payroll costs to the Hong Kong Scheme, which contribution is matched by employees.

The Group also operates a Central Provident Fund Scheme (the “Singapore Scheme”) for all of its qualifying employees in the Republic of Singapore. The assets of the Singapore Scheme are held separately from those of the Group in funds under the control of trustee. The Group and the employees contribute 16% and 20% respectively of the relevant payroll costs to the Singapore Scheme.

35. CONNECTED TRANSACTIONS

During the year, the Group has the following discloseable connected transactions:

Name of connected companies	Nature of transactions	THE GROUP 2003 US$'000	2002 US$'000
Substantial shareholder:			
Singapore Telecommunications Limited ("SingTel") and its subsidiaries (collectively referred to as the "SingTel Group")	Provision of services by SingTel Group through subscription arrangements		
	– co-location services paid	171	184
	– international asynchronous transfer mode circuit service paid	–	159
	– internet transit service paid	–	16
	– local leased line service paid	–	12
	– integrated services digital network services paid	–	10
	– VPN services paid	5	–
	Reselling of services from SingTel to customers of the Group		
	– local leased circuit and Internet access reselling paid	649	52
	– wholesale voice service paid	–	10
	Telephone and fax fee paid	9	–
	Other operating expenses paid	6	–
Companies controlled by a director Mr. Yu Shu Kuen:			
Koffman Finance (Hong Kong) Ltd.	Interest paid	1	–
Koffman Securities Ltd.	Property rentals paid	1	–

The above transactions were carried out in accordance with the terms of the relevant agreements governing such transactions.

At 31st December, 2003, Mr. Yu Shu Kuen has given a personal guarantee to the extent of US$646,000 to a financial institution to secure the credit facilities granted to the Group.

At 31st December, 2002, in addition to the guarantees disclosed in note 20, the then substantial shareholders of the Company, Messrs. Tsai Jenp Luh, Phil and Chang Hsiao Hui, Michael, have given personal guarantees to the extent of US$8,344,000 to certain banks to secure the credit facilities granted to the Group.

36. POST BALANCE SHEET EVENTS

The following events have occurred subsequent to 31st December, 2003:

(a) In March 2004, the Group has contracted with an independent third party to dispose of Infoserve Taiwan Technology Corporation, Infoserve Technology Beijing Limited and Infoserve Telecom Corp. for a nominal consideration.

(b) As detailed in note 3(a), the Company has entered into a subscription agreement to issue 2,000,000,000 shares of HK$0.01 each to raise HK$20,000,000.

4. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSET VALUE

Set out below is a pro forma statement of the unaudited adjusted consolidated net tangible asset value of the Remaining Group, prepared on the basis of the audited consolidated net liabilities of the Remaining Group as at 31st December, 2003 and adjusted as follows:

	US$'000
Audited consolidated net liabilities of the Group as at 31st December, 2003	(2,616)
Unaudited net loss attributable to Shareholders for the three months ended 31st March, 2004	(239)
Proceeds from the Subscription	2,436
Proceeds from the Second Subscription	180
Reduction of indebtedness pursuant to the Loan Capitalisation *(Note 1)*	347
Pro forma unaudited adjusted consolidated net tangible assets of the Remaining Group after completion of the Restructuring Proposal	108

Note:

1. Pursuant to the Loan Capitalisation Agreement, HK$2.6 million of the principal amount of the Loan, together with the interest accrued thereon, will be settled in full by way of issue and allotment of the Capitalisation Shares. For illustration purposes, based on the interest accrued on the principal amount of the Loan up to and including 14th May, 2004 of approximately HK$108,000, a total of HK$2,708,000 of the indebtedness under the Loan will be settled in full by the issue of the Capitalisation Shares.

5. INDEBTEDNESS

As explained in the annual report of the Company for the year ended 31st December, 2003, the accounts of Infoserve Taiwan, Infoserve PRC, Infoserve US and Infoserve HK have been de-consolidated from the Group account since 1st October, 2003 as the Company has ceased to exercise control over the financial and operational affairs of the aforesaid subsidiaries as a result of operational difficulties experienced by the Company. As at the close of business on 31st March, 2004, being the latest practical date for the purpose of ascertaining information contained in this indebtedness statement prior to the printing of this circular, the Remaining Group had total outstanding borrowings of US$2,183,000, comprising secured and unsecured other borrowings of US$641,000 and US$539,000 respectively, unsecured convertible notes due to a substantial shareholder of approximately US$1,000,000 and obligations under finance leases of approximately US$3,000. The Remaining Group's secured other borrowings were secured by a floating charge over the undertaking, property and assets of the Company.

Save as aforesaid and apart from intra-group liabilities and normal accounts payables, the Remaining Group did not have mortgages, charges, pledge, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance or acceptance credits, any guarantees or other material contingent liabilities outstanding at the close of business on 31st March, 2004.

6. WORKING CAPITAL

On the basis of successful completion of the Restructuring Proposal, and taking into account the debt restructuring as described in the section headed "Debt restructuring with the creditors of the Remaining Group" in the Letter from the Board set out in this circular, the Directors are of the opinion that the Remaining Group has adequate working capital for its present requirements.

7. MATERIAL CHANGES

Save for the Restructuring Proposal, which effect on the net tangible assets of the Remaining Group is illustrated in the pro forma statement of unaudited adjusted consolidated net tangible assets of the Remaining Group as set out in this circular, the Directors are not aware of any material changes in the financial or trading position or prospects of the Remaining Group since 31st December, 2003, the date to which the latest audited financial statements of the Company were made up.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors (excluding Mr. Chang who has not been contactable at his last known addresses up to the Latest Practicable Date) jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than those information relating to the Subscriber and parties acting in concert with it) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in this circular (other than those relating to the Subscriber), the omission of which would make any statement in this circular misleading.

The information in this circular relating to the Subscriber has been supplied by the directors of the Subscriber. The directors of the Subscriber jointly and severally accept full responsibility for the accuracy of information contained in this circular (other than those information relating to the Group) and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Directors) have been arrived at after due and careful consideration and there are no other facts not contained in this circular (other than those relating to the Group), the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interest in the Company and associated corporations

(i) Director's interest and short positions in the securities of the Company and its associated corporations:

As at the Latest Practicable Date, the interests of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which had been 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 were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transactions by the Directors were as follows:

(aa) Long position in the Shares

Name of director	Number of Shares: Beneficial Interest	Number of Shares: Interest of Spouse	Total number of Shares held	Approximate % to existing issued share capital of the Company
Mr. Chang	99,628,984	3,511,768 *(Note 1)*	103,140,752	17.93%
Mr. T.C. Tsai	1,200,000	–	1,200,000	0.20%

Note:

1. These Shares are held by Ms. Lin Huei Lin, the spouse of Mr. Chang.

(bb) Long position in the shares of associated corporations

Infoserve Taiwan

Name of director	Numer of shares Beneficial interest	Interest of family	Total number of shares held
Mr. Chang	10	20 *(Note 1)*	30

Note:

1. These shares are held by the parents of Mr. Chang.

2. Infoserve Taiwan has 92,000,000 shares in issue as at the Latest Practicable Date.

Save as disclosed above (and in (ii) below), as at the Latest Practicable Date, none of the Directors (other than Mr. Chang who has not been contactable as at the Latest Practicable Date and in respect of whom such information had not been verified) 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) which were required to be notified to the Company and the Stock Exchange pursuant to 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 provision 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 were required to be notified to the Company and the Stock Exchange pursuant to the GEM Listing Rules relating to securities transactions by the Directors.

(ii) Directors' rights to acquire Shares

The Company currently has two share option schemes, being (i) the Pre-IPO Share Option Scheme and (ii) the Post-IPO Share Option Scheme. Pursuant to the Pre-IPO Share Option Scheme, the Company may grant options to any director or employee of the Company or its subsidiaries, and pursuant to the Post-IPO Share Option Scheme, the Company may grant options to any directors, employees, proposed employees, any supplier of goods or services, any customers, any person of entity that provides research, development, or other technological support or any shareholder of the Company or its subsidiaries or any investee.

As at the Latest Practicable Date, the following Director held share options granted to him under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme entitling him to subscribe for Shares:

(1) Pre-IPO Share Option Scheme

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

Participants	Date of grant	Exercise period of share options	Exercise price per share *HK$*	Number of options outstanding	Approximately % to existing issued share capital of the Company
Directors:					
Mr. Chang	27th December, 2001	8th July, 2002 to 20th December, 2011	0.70	1,136,000	0.20%

(2) Post-IPO Share Option Scheme

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

Participants	Date of grant	Exercise period of share options	Exercise price per share	Number of options outstanding	Approximately % to existing issued share capital of the Company
			HK$		
Directors:					
Mr. Chang	21st February, 2002	1st January, 2003 to 31st December, 2005	1.212	1,500,000	0.26%

(iii) Substantial Shareholder

As at the Latest Practicable Date, so far as is known to the Directors (other than Mr. Chang who has not been contactable as at the Latest Practicable Date) or chief executive of the Company, the persons (other than a Director or chief executive of the Company) who had interests and/or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital are as follows:

Name of Shareholders *(Note)*	**Capacity/ Nature of interests**	**Number of Shares** Long position	Short position	**Approximate % to the existing issued share capital of the Company**	**Approximate % to the enlarged issued share capital of the Company immediately upon completion of the Subscription**
Mr. J.L. Tsai *(Note 1)*	Beneficial/ Interest of spouse	99,523,688	–	17.30%	3.33%
Ms. Tu Wen Yueh *(Note 1)*	Beneficial/ Interest of spouse	99,523,688	–	17.30%	3.33%
Ms. Lin Huei Lin *(Note 2)*	Beneficial/ Interest of spouse	103,140,752	–	17.93%	3.46%
KA Land *(Note 3)*	Beneficial interests	143,802,864	–	24.99%	4.82%
Singapore Telecommunications Limited *(Note 3)*	Interests of controlled corporation	143,802,864	–	24.99%	4.82%
The Subscriber	Beneficial interests	2,000,000,000	–	347.59%	66.97%
Mr. Gui *(Note 4)*	Interests of controlled corporation	2,000,000,000	–	347.59%	66.97%
Dr. Li *(Note 4)*	Interests of controlled corporation	2,000,000,000	–	347.59%	66.97%
Hopewell Global Limited *(Note 4)*	Interests of controlled corporation	2,000,000,000	–	347.59%	66.97%
Worldtime Limited *(Note 4)*	Interests of controlled corporation	2,000,000,000	–	347.59%	66.97%
Success Harmony	Beneficial interest	270,800,000	–	47.06%	9.07%
Mr. Alexander Tai Kwok Leung *(Note 5)*	Interests of controlled corporation	270,800,000	–	47.06%	9.07%
Goodfit Properties	Beneficial interests	140,000,000	–	24.33%	4.69%
Mr. Chow Wang *(Note 6)*	Interests of controlled corporation	140,000,000	–	24.33%	4.69%

Note:

1. Ms. Tu Wen Yueh is the spouse of Mr. J.L. Tsai. These Shares are held as to 99,305,288 Shares by Mr. J.L. Tsai and the remaining 218,400 Shares by Ms. Tu Wen Yueh. Mr. J.L. Tsai also held 1,144,000 Pre-IPO Share Options and 1,500,000 Post-IPO Share Options. The exercise in full of the subscription rights attaching to these options would result in the issue of an aggregate of 2,644,000 Shares.

2. Ms. Lin Huei Lin is the spouse of Mr. Chang. These Shares are held as to 99,628,984 Shares by Mr. Chang and the remaining 3,511,768 Shares by Ms. Lin Huei Lin.

3. KA Land, a wholly-owned subsidiary of Singapore Telecommunications Limited, held 143,802,864 Shares and the Convertible Notes which are convertible into 39,000,000 Shares at a conversion price of HK$0.20 per Share, before taking into account any adjustments that may arise as a result of the Subscription.

4. Worldtime Limited is interested in 30.62% of the issued share capital of the Subscriber and Dr. Li is in turn interested in 99% of the issued share capital of Worldtime Limited. Hopewell Global Limited is interested in 65% of the issued share capital of the Subscriber and Mr. Gui and Dr. Li are in turn interested in 75% and 25% respectively of the issued share capital of Hopewell Global Limited. Accordingly, Worldtime Limited, Hopewell Global Limited, Mr. Gui and Dr. Li are deemed to be interested in the Shares held by the Subscriber.

5. Success Harmony is wholly and beneficially owned by Mr. Alexander Tai Kwok Leung.

6. Goodfit Properties is wholly and beneficially owned by Mr. Chow Wang.

Save as disclosed above, the Directors (other than Mr. Chang who has not been contactable as at the Latest Practicable Date) and chief executive of the Company are not aware of any person (other than a Director or chief executive of the Company) who as at the Latest Practicable Date had interests and/or short position in the shares and underlying shares of the Company which would full to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

(iv) The Subscriber and parties acting in concert with it

As at the Latest Practicable Date, save as disclosed in 2(a)(iii) above, the Subscriber, its directors and parties acting in concert with any of them had no other interest in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

(v) Others

As at the Latest Practicable Date,

(aa) none of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor Somerley, Hantec and Altus Capital nor any other advisers to the Company as specified in class (2) of the definition of "Associate" under the Takeovers Code had any interest in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

(bb) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of clauses (1), (2), (3) and (4) of the definition of "Associate" under the Takeovers Code, or with the Subscriber or any party acting in concert with the Subscriber.

(cc) no shareholding in the Company was managed on a discretionary basis by fund manager connected with the Company.

(b) Dealings in Shares

(i) Directors

None of the Directors had dealt in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company during the period commencing on the date six months prior to the date of the Subscription Agreement and up to the Latest Practicable Date (the "Relevant Period").

(ii) The Subscriber and parties acting in concert with it

During the Relevant Period, save for entering into the Subscription Agreement, none of the Subscriber, its directors nor any persons acting in concert with the Subscriber had dealt in any shares, convertible securities, warrants, options or derivatives which carry voting rights of the Company.

(iii) Others

During the Relevant Period, none of the subsidiaries of the Company, nor any pension fund of the Company or of any of its subsidiaries, nor Somerley, Hantec and Altus Capital or any other advisers to the Company as specified in class (2) of the definition of "Associate" under the Takeovers Code had dealt for value in any shares, convertible securities, warrants, options of derivatives which carry voting rights of the Company.

(c) Interests and dealings in the Subscriber

The Subscriber is a private investment holding company incorporated in the British Virgin Islands with limited liability. The Subscriber is a special purpose vehicle and has not carried on any substantive business activities since its incorporation on 25th November, 2003 other than the entering into of the Subscription Agreement. None of the Directors nor the Company had any interest in the shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Subscriber, nor had any of them dealt for value in any shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Subscriber during the Relevant Period.

3. MARKET PRICES

The table below shows the closing prices of the Shares on the Stock Exchange at the end of each of the six calendar months immediately preceding the suspension of trading in the Shares on 4th November, 2003, the last trading day before publication of the Announcement and on the Latest Practicable Date:

	HK$
2003	
Latest Practicable Date	0.025
3rd November (the last trading day before publication of the Announcement)	0.025
31st October	0.025
30th September	0.045
29th August	0.045
31st July	0.045
30th June	0.052
30th May	0.075

The highest and lowest closing market prices of the Shares recorded on the Stock Exchange during the period from the date commencing six months prior to the date of the Announcement and up to the Latest Practicable Date were HK$0.028 on 15th October, 2003 and HK$0.021 on 23rd, 24th and 27th October, 2003, respectively.

4. MATERIAL CONTRACTS

The following contracts have been entered into by the Company and its subsidiaries (not being contracts entered into in the ordinary course of business) after the date two years immediately preceding the date of the Announcement and are or may be material:

(a) the Subscription Agreement;

(b) the Disposal Agreements;

(c) the Loan Capitalisation Agreement;

(d) the Second Subscription Agreement;

(e) the management agreement effective as at 1st January, 2004 between the Company and Netplus Communication Pte Ltd ("Netplus") which replaced a previous management agreement effective as at 1st January, 2003 between, inter alia, the Company and Netplus, in each case in respect of the revenue sharing management model adopted in respect of the Group's Singapore operations;

(f) the loan agreement dated 13th October, 2003 and made between the Company, Mr. Yu (as Guarantor) and SHK Finance Limited, as amended by two supplemental agreements on 14th January, 2004 and 14th April, 2004 between the parties, in respect of a HK$5 million term loan to the Company due on 13th July, 2004 (the "SHK Loan");

(g) the debenture issued by the Company in favour of SHK Finance Limited dated 13th October, 2003, pursuant to which the Company granted a floating charge over its assets as security for the SHK Loan;

(h) the convertible bond instrument dated 13th January, 2003 made by the Company, Mr. Chang and Mr. J. L. Tsai (as Guarantors) in favour of KA Land constituting the Convertible Notes;

(i) the management service agreement effective from 1st November, 2003 in respect of office services provided by Koffman Securities Limited to the Company;

(j) the loan agreement dated 23rd February, 2004 between the Company, Mr. Yu (as Guarantor) and Success Harmony in respect of a HK$4 million term loan to the Company which is due on 23rd May, 2004;

(k) the loan agreement dated 16th October, 2003 between the Company and Koffman Finance (Hong Kong) Limited in respect of a HK$1 million loan facility to the Company, the outstanding amount of which has been repaid in full;

(l) the loan agreement dated 30th October, 2003 between the Company and Koffman Finance (Hong Kong) Limited in respect of a HK$2 million loan facility to the Company, the outstanding amount of which has been repaid in full;

(m) the loan agreement dated 2nd February, 2004 between the Company and Koffman Finance (Hong Kong) Limited in respect of a HK$500,000 loan facility to the Company, the outstanding amount of which has been repaid in full;

(n) the subordinated loan agreement dated 15th April, 2004 between the Company and Mr. Yu in respect of a loan facility of up to HK$1 million to the Company;

(o) the subordinated loan agreement dated 12th May, 2004 between the Company and Mr. Yu in respect of a loan facility of up to HK$300,000 to the Company; and

(p) the Settlement Agreement.

5. LITIGATION

(i) On 2nd January, 2004, the Company was served a writ of summons by a legal practitioner in respect of an outstanding amount of approximately HK$197,697 owed by the Company for legal services. As stated in the Company's announcement dated 21st January, 2004, the Company has reached an agreement with the said legal practitioner on the settlement of the amount.

(ii) Reference is made to the Company's announcement dated 8th January, 2004, a winding up order was made against Infoserve HK on 7th January, 2004 following a petition filed in respect of monies owed by the Group to Wing Siu Company Limited in the sum of approximately HK$332,938 (the "Debts") together with interest and legal costs. The Debts were alleged to be the rents, rates and management fee for the Group's previous principal place of business in Hong Kong. As announced by the Company in an announcement dated 21st January, 2004, the Company was informed by the former company secretary of Infoserve HK that Ms. Fenn Kar Bak, Lily and Mr. Tse To Chuen were appointed as the provisional liquidators on 7th January, 2004. There was no material developments since then and up to the Latest Practicable Date.

(iii) Reference is made to the announcement of the Company dated 30th September, 2003 in which it was disclosed that the Company and Infoserve HK were served a high court writ dated 19th August, 2003 by China Unicom. The claim was in respect of amounts alleged to be owed by Infoserve HK to China Unicom for international roaming and internet and/or other computer networking services provided under four agreements entered into between the two parties. The Company believes that it has grounds to defend this claim.

A summary judgment was obtained by China Unicom on 13th February, 2004 for an amount of approximately HK$3,233,628. The Company filed an appeal based on factual disputes on plaintiff's claim against this judgment on 23rd February, 2004 and the appeal hearing was scheduled for 29th April, 2004. The Company maintained the view that it has grounds to defend this claim. Nonetheless, as the Company was keen to seek a resolution of its outstanding litigation, it sought to reach a settlement arrangement with China Unicom. On or about 12th March, 2004, China Unicom obtained a garnishee order over a bank account of the Remaining Group which has a balance of approximately HK$290,000. The Company negotiated with China Unicom to seek a vacation of such order. On 15th April, 2004, the Company entered into a resolution of the outstanding litigation with China Unicom through a payment of HK$2,700,000 as full and final settlement of the judgment sum. Upon application by the Company and China Unicom, a consent order was issued by the Court on 16th April, 2004 pursuant to which the Company shall repay the aforesaid HK$2.7 million by two instalments, of which the first instalment of HK$300,000 has been paid by the Company on 16th April, 2004 and the second instalment shall be paid on or before 18th June, 2004. Subsequent to the first instalment paid by the Company. China Unicom has discharged the garnishee order.

(iv) As announced by the Company on 27th November, 2003, Infoserve Taiwan has been in dispute with two former employees (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 NT$2 million (equivalent to approximately HK$0.47 million). The Former Employees obtained an injunction order from a Taiwan court which prevents the collection by Infoserve Taiwan of certain trade receivables from its major customers. It is estimated that the total trade receivables being withheld by those customers who are subject to the injunction order were amounted to approximately US$0.44 million (equivalent to approximately HK$3.4 million) as of 4th November, 2003. In addition, Infoserve 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 NT$5 million (equivalent to approximately HK$1.17 million). Apart from disclosed above, the Company is not aware of any other legal actions taken by the former employees against the Group.

In addition, the Company understands that certain former employees of Infoserve Taiwan have filed claims to the Taiwan Labour Department for reimbursement of unpaid salaries. The Taiwan Labour Department has instructed the employees to first file a claim against Infoserve Taiwan. Since Infoserve Taiwan no longer has operations or premises, the employees may be encountering difficulties serving their claims on Infoserve Taiwan. The Company understands the substituted service is available in Taiwan, by way of newspaper advertisement of the writ, although it is unclear which newspapers the advertisements can and should be made in. The Company is not aware of any such advertisements having been made. As such, the Company is not aware of how many claims have been served against Infoserve Taiwan or the amount of the potential claims. However, the Company understands that Mr. T.C. Tsai has filed a claim of NT$2,531,000 against Infoserve Taiwan and is awaiting instructions from the court as to service of the claim on Infoserve Taiwan.

Save for the above-mentioned, neither the Company nor its subsidiaries is involved in any material litigation or arbitration.

6. EXPERT

The following are the qualifications of the expert who has given opinions or advice which are contained in this circular:

Name	Qualifications
Altus Capital	A deemed licensed corporation to carry out Types 1, 4, 6 and 9 (dealing in securities and advising on securities and corporate finance and asset management) regulated activities under the SFO

As at the Latest Practicable Date, Altus Capital was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company (i.e. the annual report of the Company for the year ended 31st December, 2003) were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. CONSENTS

Somerley, KE Capital, Kim Eng Corporate Finance, Altus Capital and Hantec have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their opinion and letters, as the case may be, and references to their names in the form and context in which they respectively appear.

8. SERVICE AGREEMENT

The Company and Mr. Yu entered into a service contract dated 26th November, 2003 for a term of two years, subject to the parties' right to terminate the contact upon the expiry of the first year of service, by giving a 3 months' notice in writing or by payment of three months' salary in lieu of such notice. Mr. Yu is entitled to a remuneration pursuant to the contract of HK$100,000 per month (subject to an annual review by the Board) and a discretionary bonus to be determined by the Board following each completed year of service. However, on 10th March, 2004, it was agreed between Mr. Yu and the Company that Mr. Yu would waive his remuneration pursuant to his service contract effective as of 1st May, 2004.

Save for the aforesaid changes in the remuneration as described above, the other terms of the original contract remain unchanged.

Save as aforesaid, none of the Directors has any existing or proposed service contract with any member of the Group which has more than twelve months to run, nor had any Director entered into or amended any service contract which is still in force with any members of the Group within six months before 1st April, 2004, being the date of the Announcement.

9. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

Save for items (c), (d), (f), (h), (i), (j), (k), (l), (m), (n) and (o) set out in the paragraph headed "Material contracts" above, there is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant in relation to the business of the Group.

None of the Directors has any direct or indirect interest in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries during the period since 31st December 2003, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

10. ARRANGEMENTS AFFECTING DIRECTORS

(a) No benefit is being given to any Director as compensation for loss of office or otherwise in connection with the Subscription Agreement.

(b) There is no existing or proposed agreement, arrangement or understanding (including any compensation arrangement) between the Subscriber or any person acting in concert with it and Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependent upon the outcome of the Subscription Agreement and the Whitewash Waiver or otherwise connected therewith.

11. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or management Shareholders (as defined in the GEM Listing Rules) and their respective associates were interested in any business that competed with or was likely to compete with the business of the Group.

12. SPONSOR'S INTEREST

Hantec has been appointed as (i) the retained sponsor of the Company for the period from 16 January 2004 to 31 December 2004; and (ii) the financial advisor of the Company in relation to the resumption of trading in the Shares in return for advisory fees.

None of Hantec, its directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had 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, Hantec has no other interest in the Company as at the Latest Practicable Date.

13. 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 Kong Mansion, 2-6 Yee Wo Street, Causeway Bay, Hong Kong.

(b) The registered office of the Subscriber is at OMC Chambers, P.O. Box 3152, Road Town, Tortola, British Virgin Islands. The business address of the Subscriber is Room 601, 6th Floor, Admiralty Centre I, Admiralty, Hong Kong.

(c) The compliance officer of the Company is Mr. Yu. 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.

(d) 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.

(e) The members of the audit committee of the Company are Messrs Ip Man Tin, David and Leung Hong Tai and details of their background and directorships are as follows:

Mr. Ip Man Tin, David aged 58, joined the Group in February 2004. He served with the Hong Kong Government from 1971 to 1994. From 1996 to 2001, he was the Chief Executive of Golden Land Investment PLC, a company listed on the main board of the London Stock Exchange. In recent years, he has been involved in research projects in various sectors such as department stores and dairy products in Asia and Europe. He holds a Bachelor of Arts Degree and a Master of Public Administration Degree. Mr. Ip is a Member of the Chartered

Institute of Marketing and the Institute of Management Consultants, Hong Kong. He is currently an independent non-executive director of Global Tech (Holdings) Ltd.

Mr. Leung Hong Tai aged 48, joined the Group in February 2004. He has more than 18 years of experience in the field of Information Technology. He graduated from the University of Kent, England with a bachelor's degree in electronic and a master's degree of science in digital communications. He is a full member of the Hong Kong Computer Society (MHKSC), Australian Computer Society (MACS) and Professional Information Security Association (MPISA).

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group.

(f) 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.

(g) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Subscriber and any other persons for the transfer of the beneficial interests in the Subscription Shares to be allotted and issued to the Subscriber under the Subscription Agreement. Sch I Para I

(h) Somerley is the financial adviser to the Company, the registered office of which is situated at Suite 2201, 22nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

(i) Deloitte Touche Tohmatsu is the auditors to the Company, the registered office of which is situated at 26/F, Wing On Centre, 111 Connaught Road Central, Hong Kong.

(j) Altus Capital is the independent financial adviser to the Independent Board Committee, the registered office of which is situated at 8/F, Hong Kong Diamond Exchange Building, 8 Duddell Street, Central, Hong Kong.

(k) KE Capital is one of the joint financial advisers to the Subscriber, the registered office of which is situated at 17th Floor, Eight Queen's Road Central, Hong Kong.

(l) Kim Eng Corporate Finance is one of the joint financial advisers to the Subscriber, the registered office of which is situated at Room 1901, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

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

14. 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 Kong Mansion, 2-6 Yee Wo 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 7th June, 2004:

(a) the Memorandum and Articles of Association of the Company;

(b) the letter of advice from the Independent Board Committee, the text of which is set out on page 25 of this circular;

(c) the letter of advice from Altus Capital, the text of which is set out on pages 26 to 42 of this circular;

(d) the service contract as referred to in the paragraph headed "Service agreement" in this appendix;

(e) the written consents as referred to in the section headed "Consents" in this appendix;

(f) the material contracts referred to in the section headed "Material contracts" of this appendix;

(g) the annual reports of the Company for the years ended 31st December, 2002 and 31st December, 2003 and the first quarterly report of the Company for the three months ended 31st March, 2004; and

(h) this circular.

INFOSERVE TECHNOLOGY CORP.
英普達資訊科技有限公司*

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN THAT an Extraordinary General Meeting of Infoserve Technology Corp. (the "Company") will be held at the Meeting Room at Island Pacific Hotel, 152 Connaught Road West, Hong Kong on 7th June, 2004 at 10:00 a.m. for the purposes of considering and, if thought fit, passing the following resolution which will be proposed as an Ordinary Resolution:

ORDINARY RESOLUTION

1. **THAT:**

(A) the disposal by the Company to Mr Choi Wai Him of its entire interests in Infoserve Technology Corporation ("Infoserve Taiwan") for a consideration of HK$1.00, together with the waiver of all inter-company balances between (i) Infoserve Taiwan and (ii) the Company and its subsidiaries (other than inter-company balances with Infoserve Telecom Corp. and 北京英普達資訊科技有限公司, and any payables due to Infoserve Technology Hong Kong Limited), pursuant to the terms and conditions of the sale and purchase agreement dated 18th March, 2004 entered into between the Company and Mr. Choi Wai Him (the "Taiwan Disposal Agreement"), be and is hereby approved and that the directors of the Company be and are hereby authorized to do all things necessary and desirable to implement the disposal of Infoserve Taiwan and the matters contemplated in the Taiwan Disposal Agreement;

(B) the disposal by the Company to Mr Choi Wai Him of its entire interests in Infoserve Telecom Corp ("Infoserve US") for a consideration of US$1.00, together with the waiver of all inter-company balances between (i) Infoserve US and (ii) the Company and its subsidiaries (other than inter-company balances with Infoserve Technology Corporation and 北京英普達資訊科技有限公司, and any payables due to Infoserve Technology Hong Kong Limited), pursuant to the terms and conditions of the sale and purchase agreement dated 18th March, 2004 entered into between the Company and Mr Choi Wai Him (the "US Disposal Agreement"), be and is hereby approved and that the directors of the Company be and are hereby authorized to do all things necessary and desirable to implement the disposal of Infoserve US and the matters contemplated in the US Disposal Agreement;

(C) the disposal by the Company to Mr. Choi Wai Him of its entire interests in 北京英普達資訊科技有限公司 ("Infoserve PRC") for a consideration of HK$1.00, together with the waiver of all inter-company balances between (i) Infoserve PRC and (ii) the Company and its subsidiaries (other than inter-company balances with Infoserve Technology Corporation and Infoserve Telecom Corp., and any payables due to

Infoserve Technology Hong Kong Limited), pursuant to the terms and conditions of the sale and purchase agreement dated 18th March, 2004 entered into between the Company and Mr Choi Wai Him (the "PRC Disposal Agreement"), be and is hereby approved and that the directors of the Company be and are hereby authorized to do all things necessary and desirable to implement the disposal of Infoserve PRC and the matters contemplated in the PRC Disposal Agreement;

(2) **THAT**:

(A) the issue and allotment by the Company to Tenway Limited (the "Subscriber") of 2,000,000,000 new ordinary shares in the Company for cash at the subscription price of HK$0.01 per share (the "Subscription"), pursuant to the terms and conditions of the subscription agreement dated 18th March, 2004 entered into between the Company and the Subscriber (the "Subscription Agreement"), be and is hereby approved and that the directors of the Company be and are hereby authorized to do all things necessary and desirable to implement the Subscription and the matters contemplated in the Subscription Agreement; and

(B) conditional upon the passing of Resolution 6, the directors of the Company be and are authorized to allot and issue 2,000,000,000 ordinary shares in the Company to the Subscriber, pursuant to the terms of the Subscription Agreement free and clear of any pre-emption right of the shareholders of the Company;

(3) **THAT**, the requirements, pursuant to Rule 26 of The Code on Takeovers and Mergers (the "Takeovers Code"), for a mandatory general offer for the shares of the Company by the Subscriber arising as a result of the Subscription be and are hereby waived;

(4) **THAT**:

(A) the issue and allotment by the Company to Goodfit Properties Limited ("Goodfit Properties") of 140,000,000 new ordinary shares in the Company for cash at the subscription price of HK$0.01 per share (the "Second Subscription"), pursuant to the terms and conditions of the subscription agreement dated 12th May, 2004 entered into between the Company and Goodfit Properties (the "Second Subscription Agreement"), be and is hereby approved and that the directors of the Company be and are hereby authorized to do all things necessary and desirable to implement the Second Subscription and the matters contemplated in the Second Subscription Agreement; and

(B) conditional upon the passing of Resolutions 6, the directors of the Company be and are hereby authorised to allot and issue 140,000,000 ordinary shares in the Company to Goodfit Properties, pursuant to the terms of the Second Subscription Agreement free and clear of any pre-emption rights of the shareholders of the Company.

(5) **THAT**:

(A) the issue and allotment by the Company to Success Harmony Limited ("Success Harmony") of new ordinary shares in the Company, at the rate of one ordinary share for every HK$0.01 of the indebtedness then outstanding in full and final satisfaction of HK$2,600,000 in principal amount of a loan of HK$4,000,000 (together with accrued interest thereon) advanced by Success Harmony to the Company (the "Loan Capitalisation"), pursuant to the terms and conditions of the loan capitalisation agreement dated 12th May, 2004 entered into between the Company and Success Harmony (the "Loan Capitalisation Agreement"), be and is hereby approved and that the directors of the Company be and are hereby authorized to do all things necessary and desirable to implement the Loan Capitalisation and the matters contemplated in the Loan Capitalisation Agreement; and

(B) conditional upon the passing of Resolutions 6, the directors of the Company be and are hereby authorised to allot and issue such number of ordinary shares in the Company to Success Harmony as may be determined pursuant to the terms of the Loan Capitalisation Agreement free and clear of any pre-emption rights of the shareholders of the Company.

(6) **THAT**, conditional upon the passing of Resolutions 2, 4 and 5, the authorized share capital of the Company be and is hereby increased to HK$50,000,000 by the creation of 4,200,000,000 new ordinary shares of HK$0.01 each.

By order of the Board
Yu Shu Kuen
Chairman

Hong Kong, 21st May 2004

Principal Place of Business:
11/F, Ying Kong Mansion
2-6 Yee Wo Street
Causeway Bay
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy (who must be an individual) to attend and vote instead of him. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any share in the Company, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present whose name stands first in the register of members in respect of such share shall alone be entitled to vote in respect thereof.

3. A form of proxy for use at the Meeting is enclosed with this notice.

4. The form of proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be delivered to the Company at 11/F, Ying Kong Mansion, 2-6 Yee Wo Street, Causeway Bay, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or the adjourned meeting (as the case may be) and in default the proxy shall not be treated as valid. Completion and return of the form of proxy shall not preclude members from attending and voting in person at the Meeting or at any adjourned meeting (as the case may be) should they so wish. If a member who has lodged a form of proxy attends the Meeting, his form of proxy will be deemed to have been revoked.

5. Any corporation which is a member of the Company entitled to attend and vote at the Meeting is entitled to appoint a representative to attend and vote on its behalf. A representative need not be a member of the Company. A representative may be appointed by resolution of the directors or other governing body of the corporation, or by power of attorney. The resolution or power of attorney, or a certified copy of such power or resolution, must be delivered to the Company at 11/F, Ying Kong Mansion, 2-6 Yee Wo Street, Causeway Bay, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or the adjourned meeting (as the case may be) and in default the appointment of the representative shall not be treated as valid.

6. The quorum required for the Meeting is two or more members present in person or by proxy. If within 15 minutes from the time appointed for the Meeting a quorum is not present, the Meeting shall stand adjourned to the same day in the following week and at such time and place as shall be decided by the directors of the Company. If at such adjourned meeting a quorum is not present within 15 minutes from the time appointed for the Meeting, the member or members then present in person or by proxy shall constitute a quorum.

7. Each resolution, other than Resolution 3, will be decided in the first instance on a show of hands unless a poll is duly demanded. Resolution 3 will be decided on a poll. On a show of hands, every person who is present, being a member, proxy or representative, shall have one vote. On a poll, every person who is so present shall have one vote for every share held by him or in respect of which he is a proxy or representative.